# THE POWER OF SUSTAINABILITY

ANNUAL REPORT | 2001

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BC hydro

# CONTINUING TO MOVE

## IN THE RIGHT DIRECTION

British Columbia Hydro and Power Authority (BC Hydro) is a provincial Crown corporation. Our mission is to provide integrated energy solutions to our customers in an environmentally and socially responsible manner.

As one of the largest electric utilities in Canada, BC Hydro serves close to 1.6 million customers in an area containing over 94 per cent of British Columbia's population. Between 43 000 and 54 000 gigawatt-hours of electricity are generated annually, depending upon prevailing water levels. Electricity is delivered to customers mainly through an interconnected system of more than 75 000 kilometres of transmission and distribution lines.

BC Hydro's Board of Directors is appointed by the Lieutenant-Governor in Council and is responsible for the overall direction of the company.

LETTER FROM THE CHAIR

LETTER FROM THE CEO

SMART POWER

LOOKING BEYOND B.C.

POWERING OUR FUTURE

A POWERFUL CONNECTION

ABORIGINAL PARTNERSHIPS

POWER SMART

LEADING THE WAY TO CLEANER, SAFER, MORE EFFICIENT TECHNOLOGIES

A POWERFUL INVESTMENT

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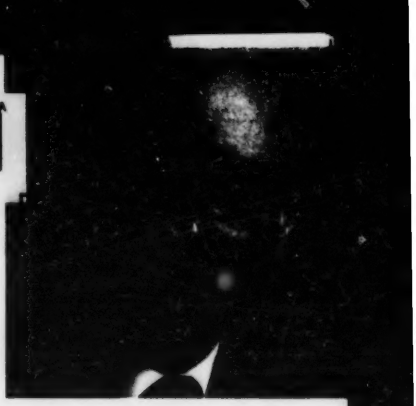


## LETTER FROM THE CHAIR

The North American electric industry has experienced dramatic changes in the past several years. Four years ago, there were adequate supplies of energy, prices were low, the demand for electricity was stable and markets were moving towards deregulation.

Today, there are regional shortfalls in energy supply, wholesale electricity prices have soared, demand for electricity is increasing and the momentum towards deregulation appears to be slowing. While British Columbia is blessed with an adequate supply of energy and BC Hydro has been able to maintain low prices, predicting the future has never been more challenging.

While there has been considerable volatility in our industry, let me assure you that BC Hydro is well positioned to compete and prosper in this dramatically changing environment. We have the basic ingredients – low-cost, renewable and clean hydroelectric power, a growing stature in international electricity trade and an experienced, dedicated workforce – to be one of the most profitable and respected energy companies in North America. We have made considerable strides in our policy of sustainability, putting us at the forefront of the industry. We intend to stay there.

BC Hydro will meet the challenges ahead and aggressively pursue the opportunities presented by an industry in transition. We remain committed to our vision of being a competitive, commercial Crown corporation that provides superior value for our customers and our shareholder – the provincial government. Our success over the past year was shared directly with our customers through low electricity rates and the provincial government-directed $200 energy rebate, applied to all residential accounts. Our achievements are due, in large part, to the extraordinary contributions of our 5900 employees.

Sincerely,

Robert A. Fairweather
*Acting Chair*

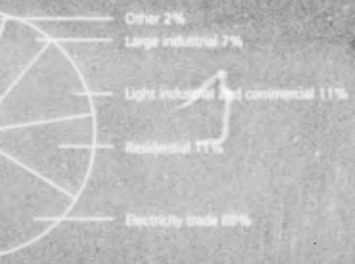
# FINANCIAL HIGHLIGHTS

## KEY FINANCIAL AND OPERATING COMPARATIVES

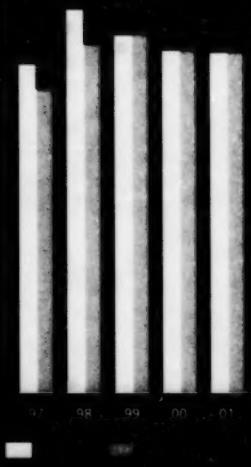
| MILLIONS OF DOLLARS UNLESS OTHERWISE STATED | 2001 | 2000 [1] | 1999 |
|---|---|---|---|
| **FINANCIAL COMPARATIVES** | | | |
| Revenues | $ 7,889 | $ 3,480 | $ 3,043 |
| Net income | $ 446 | $ 416 | $ 395 |
| Capital assets | $ 9,361 | $ 9,320 | $ 9,236 |
| Net long-term debt | $ 6,214 | $ 7,005 | $ 7,491 |
| Rate Stabilization Account | $ 232 | $ 129 | $ 0 |
| Retained earnings | $ 1,459 | $ 1,385 | $ 1,312 |
| Capital and deferred expenditures | $ 413 | $ 406 | $ 392 |
| Debt to equity | 70:30 | 74:26 | 77:23 |
| Return on equity (%) | 16.59 | 16.69 | 17.43 |
| Interest coverage | 1.94 | 1.89 | 1.60 |
| **OPERATING COMPARATIVES** | | | |
| Number of customers | 1 595 287 | 1 579 658 | 1 558 294 |
| Generating capacity (MW): | | | |
| Hydroelectric | 10 009 | 10 000 | 9 960 |
| Thermal | 1 124 | 1 123 | 1 085 |
| Peak one-hour demand (MW) | 8 995 | 8 423 | 8 777 |
| Average annual kW·h use per residential customer | 10 344 | 10 507 | 10 201 |
| Average number of customers per employee | 275 | 284 | 285 |
| Domestic sales (GW·h) | 48 131 | 46 442 | 45 791 |
| Electricity trade sales (GW·h) | 23 900 | 23 410 | 18 715 |
| Electricity sold per employee (GW·h) | 12.48 | 12.63 | 11.89 |

[1] Certain amounts have been restated to conform to the presentation used in 2001

CES OF REVENUE




ALLOCATION OF REVENUE



# POISED TO PROSPER

This has been an exceptional year for the electric utility industry, and a truly outstanding one for BC Hydro. North American energy issues were on the front page of every newspaper. Weather was unpredictable all over the Pacific Northwest – hotter than normal in summer, colder and dryer in winter. We used that to our advantage and had a great year financially. The best yet. We made important decisions concerning BC Hydro's future energy supply. We worked hard to be environmentally and socially responsible. And, all the while, we continued supplying electricity to our domestic customers at some of the lowest prices in North America.

An external review places BC Hydro in the top five best-performing distribution companies worldwide in terms of price, reliability and safety. Yet more electricity is being transmitted over our wires than ever before. Our employees are working hard to ensure the system is able to support such an increase in activity, and we are continuing to invest resources to ensure reliability.

## WORKING TO A TRIPLE BOTTOM LINE

Our mission is to provide integrated energy solutions to our customers in an environmentally and socially responsible manner. In other words, to provide power in a way that is sustainable in the long term. We could have measured this year's performance against our outstanding financial results and stopped there. Instead, we believe it is essential not only to make a profit, but also to recognize the importance of our relationship with British Columbians, and protect the environment – and to be accountable for all three. We call it our "triple bottom line."

BC Hydro was the first Canadian utility company to adopt triple bottom line reporting and we are proud to be leading the way. Ultimately, we want to become the leading sustainable energy company in North America. The reason we are in such a good position to do so is because of our strong community involvement, our excellent environmental track record and the natural advantage we have with renewable hydroelectricity as the backbone of our energy mix.

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## GREEN ENERGY FOR THE FUTURE

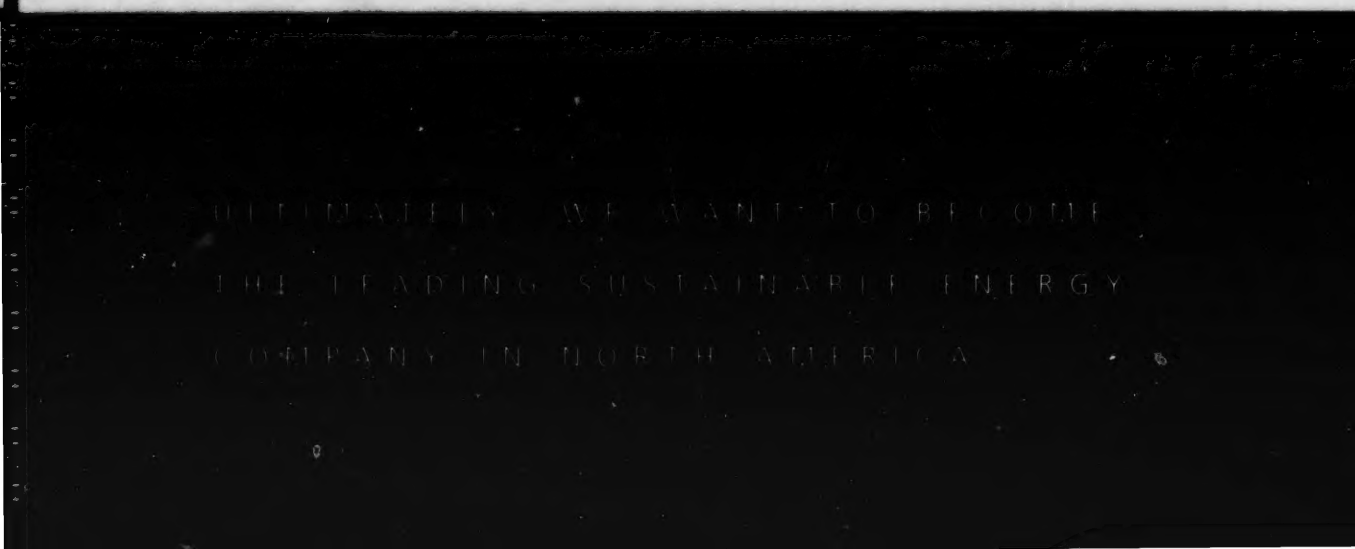
As part of our sustainability plan, we have made a commitment to acquire ten per cent of new energy from "green" sources that are renewable, environmentally friendly, socially responsible and licensable. We are not going to sit back and wait for green energy technologies to become available to us. We have already signed agreements with local power developers to buy energy produced from small hydro and woodwaste. These projects will begin immediately. Wind energy studies are also looking positive. In the longer term, our options may one day include solar or geothermal energy. We will be watching developments closely in those areas.

## H. E. L. P. FOR OUR CUSTOMERS

Our customers, more than ever, are concerned about energy issues. While electricity rates have not increased since 1993, rising natural gas prices are putting significant pressure on customers. We want to be part of the solution.

We are revitalizing our commitment to Power Smart with a three-year campaign called the Power Smart Home Energy Learning program (h.e.l.p.). The program provides information, education and incentives to increase public involvement with Power Smart. Through h.e.l.p. we are showing customers how they can use energy more wisely and save on their energy bill. In this way we can also manage our electricity load and reduce environmental impacts.

The h.e.l.p. campaign was launched in February 2001 with a new online tool called the Power Smart Home Energy Profile, which helps customers identify energy-saving opportunities in the home. In the second and third years, we will expand the campaign to include the institutional, educational, corporate and industrial sectors.



## FINDING NEW POWER SOURCES

One of our main challenges in the years ahead is to create additional power generation. Electricity demand in British Columbia is forecast to grow by 1.8 per cent each year, and we will need new energy resources by 2007. Choosing these resources means making difficult decisions – trade-offs between costs, availability, reliability, social considerations and environmental impacts. We will make these decisions in consultation with our stakeholders. Green energy will meet some of the province's growing electricity needs, but the rest will come from other sources. Natural gas will act as a bridge to the future and we have committed to reduce the greenhouse gas emissions that come with natural gas-based generation.

## LEADING THE WAY

In the longer term, there is exciting work being done here in British Columbia on new energy technologies. We will continue to invest in research and development to place ourselves at the forefront of the energy marketplace. Our strategy is to form partnerships with experts and the entrepreneurs in the industry. Hydrogen, distributed resources and e-business have evolved from being seen as potential opportunities into deliberate strategies for action.

## GIVING BACK TO THE PROVINCE

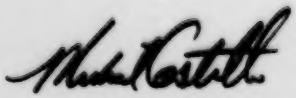
BC Hydro and Powe[illegible] power marketing subsidiary, have had an exceptional year trading electricity. Due to the combined efforts of staff across the company, BC Hydro enjoyed record operating profits of around $850 million. From these profits $372 million was returned to the provincial government in the form of a dividend. An additional $429 million went to provincial and local governments in the form of water rental fees, taxes and grants in lieu of taxes, and $103 million was transferred into the Rate Stabilization Account. This account will help offset the need for rate increases in the future.

## RETAINING AND ATTRACTING THE BEST

Building a strong and capable organization is one of our top priorities. Our employees are the foundation of BC Hydro's success, and the drivers of our evolution towards becoming a sustainable energy company.

Demographic trends and recruitment competition mean we must work harder than ever to retain and attract "the brightest and the best." This is a time of increasing shortages of skilled labour across North America; compounding this, in the next five years retirements may cause us to replace as many as 30 per cent of our current employees. To meet these challenges, we must continue to look at innovative ways of attracting and retaining staff.

As you will see on the following pages, we have achieved a great deal this year. I wish to thank all our employees whose hard work and commitment have made this such a successful year.



Michael Costello
*President and Chief Executive Officer*

# RE: SOURCES

## MAKING THE MOST

OF WHAT WE HAVE

Being resource smart is an important step towards sustainability. Not only are we working hard to create more power from existing resources, but we are also planning to meet part of the province's future power demand with new "green" energy sources like wind, micro hydro and biomass. Energy that is renewable, responsible and sustainable.

## SMART POWER

Here in British Columbia, we are fortunate to be able to meet most of our electricity needs through clean, renewable hydro-electricity. However, as our population increases, the demand for electricity grows. This year we continued to focus on finding new, cost-effective ways to supply power to the province.

We worked hard to squeeze extra energy from existing resources. Major efficiency improvements were carried out at Kootenay Canal, Bridge River and GM Shrum generating stations. At Seven Mile Dam a fourth turbine is currently being added to our hydroelectric system. This will increase generating capacity by 210 megawatts – enough energy to power 30 000 homes. Installing additional generating units at existing facilities is a cost-effective and environmentally sound way to meet the province's growing energy demands, while at the same time deferring new facility construction.

In addition to increasing our generating capacity, we have been adding computing "smarts" to our generation operation process and getting more power out of the water we run through the turbines. By using leading-edge computer programs and complex mathematical techniques, we have refined the process that determines which generators run at which times, improving the efficiency of existing resources.

We are proud of a hydroelectric system that continues to provide a renewable and dependable source of electricity. We have also made a commitment to acquire ten per cent of new energy from "green" sources, such as biomass or micro hydro, that are renewable, environmentally friendly, socially responsible and licensable. We hope that some day, with advances in technology and readily available resources, new green sources will be a more significant part of our generation capability.

## ADDING GAS TO THE ENERGY MIX

Unfortunately, new green energy sources are not yet financially viable on a large scale. So we had to find a cost-effective and reliable way to meet the province's energy demands in the short term. Natural gas, the cleanest burning of all fossil fuels, is currently the best fit. We view it as a "bridge" to the future, where more green energy technologies will be added to the mix.

BC Hydro is participating in a 50-50 joint venture agreement to build a 260-megawatt natural gas-fired plant in Port Alberni. We have also agreed to buy power from an independent 250-megawatt natural gas generating plant in Campbell River.

To increase gas transportation capacity to Vancouver Island, a partnership has been formed with Williams Gas Pipeline Company to build a natural gas pipeline that will run from the state of Washington to the Island.

Energy demand in the future may well be met through wind, solar, tidal or geothermal power. We are closely watching developments in these areas. We are also investing in research and development of new distributed resources such as microturbines and fuel cells.

## SHARING A WEALTH OF WATER

Finding a balance between protecting our environment and supplying reliable, low-cost electricity is not always easy. As the province's largest electricity company, BC Hydro is paying close attention to the environmental and social implications of our operations.

Recognizing that water is a shared resource, BC Hydro continues to work with interested parties to find a better balance between competing uses of water that is socially, environmentally and economically acceptable to British Columbians. Water Use Planning ensures that water uses such as hydroelectric, industrial, recreational, community, flood management and fish habitat are considered when reviewing facility operations.

Over the next three years we will continue to develop Water Use Plans for all our hydroelectric facilities. Plans for Stave Falls/Ruskin and Alouette are already complete; currently in progress are plans for Ash River, Bridge River, Campbell River, Cheakamus, Coquitlam/Buntzen, Jordan River, Peace, Shuswap, Wahleach and Mica/Revelstoke/Keenleyside.

RECOGNIZING THAT WATER IS A SHARED RESOURCE, WE ARE WORKING TO FIND A BETTER BALANCE BETWEEN COMPETING USES THAT IS SOCIALLY, ENVIRONMENTALLY AND ECONOMICALLY ACCEPTABLE.

**BC Hydro is the proud recipient of a Leadership Award from Canada's Climate Change Voluntary Challenge and Registry. The award is in recognition of our annual climate change progress report, achievements in reducing greenhouse gas (GHG) emissions, public outreach program and overall leadership in GHG management.**

## EXPLORING THE GREAT OUTDOORS

All over British Columbia there are picnic sites, campgrounds, visitor centres and other recreational areas developed and maintained by BC Hydro. This year more than 1.2 million people visited our 19 public recreation sites.

When the power plant was replaced at Stave Falls, in the Fraser Valley, we decided to transform the existing 85-year-old power house into a visitor centre. In the fall of 2001 the centre will open with interactive galleries, hands-on science exhibits and historical artifacts and photographs.

## COMMUNITY ENERGY PLANNING

This year Bowen Island residents and council initiated discussions with BC Hydro about exploring opportunities for developing new green energy sources on the island as the community grows and their need for power increases. As well, we continued to work with other groups, such as the University of British Columbia, to examine ways of incorporating green energy as part of an electricity and water use strategy that is sustainable.

We also co-funded a study in the Nemiah Valley exploring renewable energy options such as wind energy and micro hydro. If proven viable, these options will enable the local First Nations community to replace diesel generation, wood stoves and propane – all producers of greenhouse gas emissions – with green energy sources.

## REDUCING GREENHOUSE GAS EMISSIONS

In an average run-off year, about 90 per cent of BC Hydro's electricity is generated from water, making us one of the lowest greenhouse gas (GHG) emitting electric utilities in North America. However, as more natural gas is added to our generation mix, GHG emissions will increase. But we are serious about managing our environmental impacts. Actions underway that support our GHG management strategy include encouraging customers to use energy wisely through Power Smart programs; ensuring internal facilities operate efficiently through our Resource Smart program; acquiring power from green resources; and investing in GHG offsets. A GHG offset involves a project that compensates for emissions at one source by lowering, avoiding or capturing and storing emissions at another source.

This year BC Hydro made a commitment to offset 50 per cent of the increase in GHG emissions from two new natural gas-fired generation plants planned for Vancouver Island. Our first offset project, announced in 2000, involves capturing methane gas from the Port Mann landfill in Surrey, B.C., and delivering the gas to a nearby wallboard plant to be used as fuel in the plant's burners. We continue to explore other opportunities to meet our offset commitment.

## MAKING IT SAFE

BC Hydro's employee injury rate continues to be one of the lowest in B.C. industry. Managing a high-risk commodity such as electricity requires stringent safety protection practices, and an equally strong commitment to maintaining them. BC Hydro's safety practices are among the best in the utility industry today. To minimize risk to employees, and to improve their overall safety, we continually review and enhance our safety programs.

Also, BC Hydro is committed to ensuring the safety of our dams. This year we carried out seismic improvements on two of our major hydruelectric generating facilities. The strengthening of Stave Falls Dam, originally built in 1911, will be complete by the end of 2001. As well, a new spillway channel was excavated at Elsie Dam in the first phase of seismic improvements; by 2002 the dam will meet the latest in earthquake standards. Seismic improvements will ensure downstream security for people and the environment for years to come.

# LOOKING BEYOND B.C.

BC Hydro's generation system is planned and operated, first and foremost, to serve the needs of our domestic customers. But it can provide other benefits as well, including significant financial returns from trading electricity with customers outside British Columbia.

## BEING FLEXIBLE

The flexibility of the BC Hydro electric system allows us to change the level of generation output to meet differing supply and demand conditions. This ability is a considerable benefit because it enables BC Hydro to respond quickly to changing market conditions to maximize the value of its electric system.

We are able to purchase electricity from outside the BC Hydro system in lower-priced periods and sell it into the electricity marketplace in higher-priced periods, earning additional revenue for the company and the province.

## A WINDFALL YEAR

During this past fiscal year we were able to make an operating profit of around $850 million. Much of this is from buying and selling electricity outside B.C., making fiscal 2001 the most successful financial year in the history of BC Hydro.

This success was mainly due to extremely volatile market conditions, and was made possible by skilled BC Hydro staff and the flexibility of our reservoir system.

The electricity trade had no net impact on the amount of water in the reservoirs. In fact, we actually ended up as a net importer for the year, as staff conserved our stored water by purchasing as much electricity as possible in anticipation of the potential low water year to come.

## RETURNING THE BENEFITS TO YOU

The benefits of this past fiscal year's extraordinary success were felt by all BC Hydro customers in a number of ways. For example, $372 million was returned to the provincial government in the form of a dividend. An additional $429 million went to provincial and local governments in the form of water rental fees, taxes and grants in lieu of taxes. And $103 million was transferred into the Rate Stabilization Account, which will help protect against potential future electricity rate increases.

The continued significant profits from electricity trade also helped keep our electricity rates among the lowest in North America. B.C.'s rates have not increased since 1993, due to a provincial government rate freeze. When you factor in inflation over that time, our customers are paying approximately 12 per cent less for their electricity now than they were back in 1993.

# POWERING OUR FUTURE

To take care of tomorrow's energy needs in a way that is sustainable, we are investing in "green" electricity sources today. We are committed to meeting 10 per cent of future growth with power that is renewable, environmentally friendly and socially responsible.

At the same time, we continue to enjoy financial success. Innovest, a New York-based investment advisory firm, ranked BC Hydro fourth when compared to 30 American electric utilities. Ranking is based on a company's ability to minimize environmental damage while generating profit from sound environmental management. In other words, a company's efforts to be successful and sustainable.

As part of our sustainability efforts, we are taking a fresh look at how best to meet B.C.'s long-term electricity requirements. Over the next year we will be re-evaluating BC Hydro's "big picture" and investigating new resources, energy efficiency programs and distributed generation. Given these options, we will consult with interested parties to ensure the environmental, social and financial costs and benefits are properly reflected in our resource mix.

In 2000 we asked B.C.'s independent power producers (IPPs) to submit green energy project proposals. To date we have heard from approximately 50 producers, with most proposals involving commercial technologies such as small hydro and biomass. We are currently reviewing them to see if they meet our criteria for new green energy: to be renewable and socially responsible; to have the ability to be licensed; and to have low environmental impact.

## SMALL AND MICRO HYDRO PROJECTS

The abundance of rivers, streams and creeks in our province makes it ideal to develop small and micro hydro facilities. Most small hydro projects rely on small dams or diversion structures, and do not flood land. Micro hydro facilities do not involve dams and have minimal environmental impact, as they use small, steep water sources that are virtually impassable by fish.

To encourage new micro hydro developers, we have put together a list of more than 600 potential sites province-wide. We are also working on a handbook that outlines standards and procedures for developing and installing micro hydro projects.

In October 2000 we announced our first agreement with an IPP for a small hydro project that meets our green energy criteria. A 25-megawatt "run-of-river" facility near Pemberton is planned, and will provide us with enough electricity to meet the needs of 10 000 residential customers.

## A WEALTH OF WOODWASTE

We are exploring several emerging technologies that convert biomass into energy. Biomass is essentially anything organic. Sawmill woodwaste is the most common source of biomass energy in B.C., and is already used in many applications.

One way to produce energy from biomass is to burn it and convert it into captured gas, a process known as gasification. BC Hydro has provided funding for the research and development of a cogeneration pilot project in Kelowna. The project, the first of its kind, proposes to produce both heat and electricity through gasification.

## MEASURING WIND ENERGY

British Columbia has the potential, especially along its coast and in some interior valleys, to economically generate electricity from wind.

To find possible future sites for wind turbines, we are collecting data on wind speed, direction and consistency. We recently created the first comprehensive wind-speed map for our province.

As well, wind-monitoring towers have been erected at Alert Bay and Jordan Ridge on Vancouver Island, and on Mount Hays near Prince Rupert. Results look promising. If the analysis from any of these sites proves that wind is a viable resource, we plan to have a demonstration wind energy project producing electricity by the end of 2002.

WHEN YOU PROVIDE

RELIABLE POWER

# IT GETS AROUND

## > MOVING FORWARD TO THE FUTURE

To ensure reliable power delivery, we employ the latest in leading-edge technology. Our PowerOn outage management system proved itself in December when bad windstorms hit the province. Through PowerOn, we were able to increase our processing of customer calls significantly, and power was restored within 36 hours – about 15 per cent less time than in previous storms.

## MAKING A GOOD THING BETTER

East Vancouver and south Burnaby residents can be sure of continuing to receive reliable electricity. We have completed the first stage of replacing underground cables that supply power to the two municipalities, as the existing 230 kV cables were nearing the end of their life. Also in the Greater Vancouver area, seismic upgrades were completed on four of our tallest transmission towers spanning the Fraser River, from Delta to Richmond. These towers are critical for supplying power to south Vancouver and for alternate supply to the downtown core.

And to better protect our electric system equipment and maintain reliability, forty sites on the Mica-Kootenay microwave communication system have been updated from analog to digital technology. This was the second phase in a five-year program; the Lower Mainland and south Vancouver Island systems are due to be replaced by 2002.

## SHARING OUR WIRES

BC Hydro participates in wholesale electricity trade with utility companies and power marketers through western North America. Our wholesale transmission business increased significantly in fiscal 2001. At the same time, we continued to ensure secure, reliable electricity for all our customers, despite significant increases in transmission activity.

To help meet the growing needs of our wholesale transmission customers, we have invested in new technology to improve day-to-day management of the power grid. Developments include an automated scheduling system, a new billing and payment system and an improved Web site to make it easier for customers to access their account information.

Thanks to an interlinked power grid that extends through western North America, hundreds of our wholesale transmission customers are located across the border. We want to keep these customers and, in order to do so, must respond to a rapidly changing marketplace. While being mindful of the need to maintain sovereignty over our natural resources and to protect the interests of B.C., we are currently exploring ways to participate in a western Regional Transmission Organization (RTO). The creation of RTOs was ordered by the U.S. Federal Energy Regulatory Commission as a way to facilitate access to transmission services for all market participants.

## CLEARING THE WAY

This year we partnered with several universities to find an environmentally friendly solution to controlling bigleaf maple and Scotch broom on our transmission corridors. If they grow too high, bigleaf maple trees interfere with electricity lines, while Scotch broom is an introduced species competing with our native plants. Researchers are looking for naturally occurring biological control agents, such as insects or fungi, which could be used instead of herbicides to reduce the growth of invasive plant species.

Wherever possible, BC Hydro's vegetation maintenance activities encourage wildlife to use transmission corridors for food supply and migration. In northern B.C. we worked with a master's student to find ways to support local bear, deer and elk populations. The program has been so successful in creating grizzly habitat in several parts of the Peace region that vegetation management crews now have to wait until winter, when the bears go into hibernation, to work in those areas.

Fish also benefit from our efforts to protect and enhance habitat. We must keep the areas under power lines free of tall trees for safety and reliability, but we always ensure that low-growing native species are retained or planted beside streams. This not only helps to maintain shade for fish, but it also controls stream erosion and silt. This year we worked with groups and communities on stream-side enhancement projects at High Knoll Park in Surrey, Pacific Spirit Regional Park in Vancouver and Piercy Mallard Creek on Vancouver Island.

# ABORIGINAL PARTNERSHIPS

BC Hydro recognizes that the Aboriginal Peoples of British Columbia have a distinct legal, historical and cultural status.

We are committed to continuing to build effective relationships with B.C.'s First Nations, as it is an important step in addressing both the positive and negative impacts of moving power around the province. Currently, there are over 2000 kilometres of transmission and distribution lines on more than 160 First Nations reserves in B.C.

We have much to gain from the diverse cultures of the Aboriginal Peoples with whom we share the province. Our goal is to incorporate their traditional knowledge into our business practices. We also strive to create economic, educational and employment opportunities for First Nations.

## CONSULTATION IS THE KEY

We continue to work with First Nations on our fish and wildlife compensation programs. They also play an important role in BC Hydro's Water Use Planning (WUP) program, which was established to review provincial water licenses for our reservoirs and to ensure we find a better balance between competing uses of water that is socially, environmentally and economically acceptable to British Columbians. First Nations are involved in the ongoing management of the province-wide WUP program, as well as in the consultative process for individual Water Use Plans for each hydroelectric facility. Also, we continue to consult closely with local First Nations communities on new projects, such as the Georgia Strait Crossing Natural Gas Pipeline proposal.

## WORKING TOGETHER

We have partnered with First Nations in Nanaimo and the University of Victoria to develop a business plan to grow and harvest non-timber forest products on a Vancouver Island transmission corridor. Possible products being looked at include edible wild mushrooms, medicinal and pharmaceutical products, and wild berries and fruit.

PHOTO: YELLOW CEDAR DOORS BY ARTIST AND CARVER XWA-LACK-TUN OF THE SQUAMISH NATION

## BUILDING THE FUTURE

Investing in education is an important step for the future. This year we awarded eighteen scholarships to post-secondary Aboriginal students – nearly twice as many as the year before. In addition, six youths worked with us in ten-week positions. While some of them worked directly on BC Hydro projects, others worked in their own communities on local initiatives.

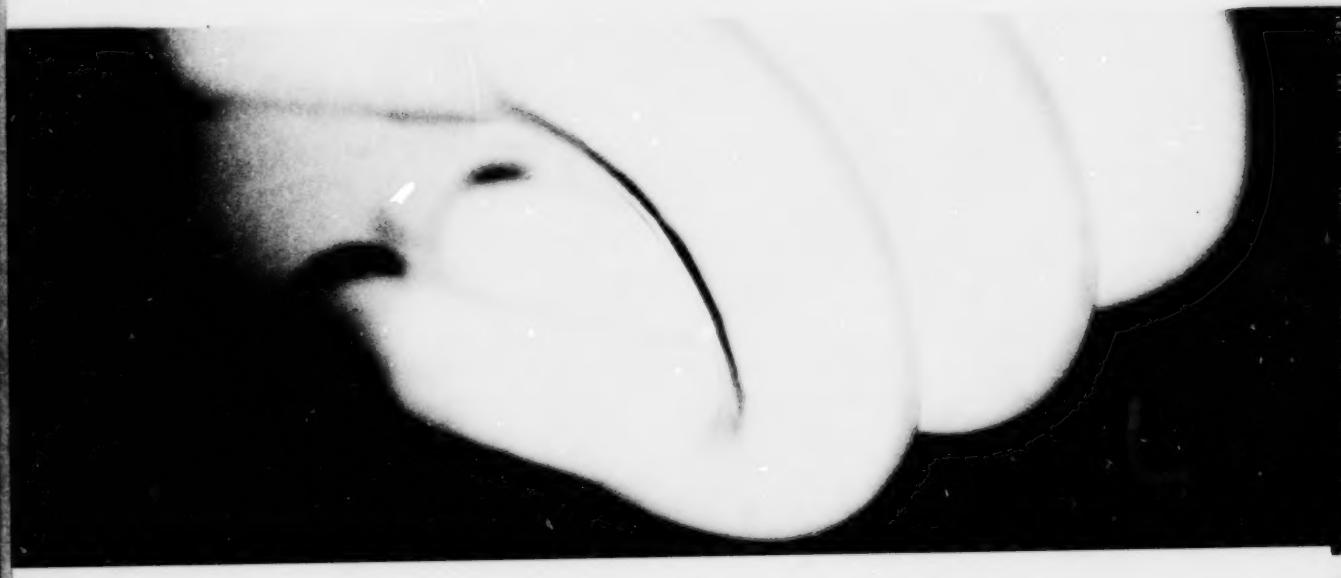
Our Aboriginal Business Partnership program assists Aboriginals in building their own businesses. In 2001, grant applications nearly tripled from the previous year. There are now 34 Aboriginal companies involved in the program, including a guitar manufacturer, a cyber-café and several eco-tourism operations.

BC Hydro's First Nations Pre-employment Trades Training program, developed with the Electrical Industry Training Institute, provides Aboriginal students with the necessary skills to gain employment in construction, maintenance, and utility and vegetation management. Fifteen students are enrolled in the pilot program which was launched this year.

## SPREADING THE WORD

BC Hydro is seen as a leader in understanding and working effectively with Aboriginal Peoples. This year more than fourteen external organizations asked us to deliver our Cross-Cultural Training program to their members. Proceeds from the training are being used to develop our First Nations Pre-employment Trades Training program.

# THE PROS



# OF CONSERVATION

Promoting conservation is a big part of being a sustainable energy company. A province that knows how to conserve will reduce its need for more power. This, in turn, will reduce the social and environmental impacts of creating electricity. Our Power Smart programs offer customers many ways to lower their energy costs – and help the environment at the same time.

## POWER SMART

Energy efficiency makes sense for both BC Hydro and for our customers. Our Power Smart programs help residential customers and businesses use energy wisely. At the same time, energy efficiency stretches electricity resources among more users and lessens our need to generate extra power.

In 2000, annual energy savings from being Power Smart totalled 2500 gigawatt-hours. That is a lot of conserved electricity – enough to power all the homes and businesses in Victoria and Prince George for a year!

# A POWERFUL CONNECTION

BC Hydro's transmission and distribution lines are the arteries that supply British Columbia with power. Low electricity costs, coupled with high reliability, make our system one of the best in North America – and we work hard to keep it that way.

In fact, the Electric Utility Cost Group, a group of leading North American utility companies, has ranked BC Hydro in the top five best-performing distribution companies for 2000, based on utility cost, safety and performance.

## H.E.L.P. IS HERE

In 2001 we launched a new, three-year Power Smart campaign called the Home Energy Learning program – or h.e.l.p. This program is designed to provide BC Hydro residential customers with information, education and incentives to help them save energy and money.

Although B.C.'s electricity prices have not increased since 1993, and remain among the lowest in North America, natural gas prices have increased substantially. While BC Hydro is not responsible for natural gas increases, we recognize the impact these increases are having on our customers who heat their homes and businesses using natural gas. We want to be a part of the energy solution.

BC Hydro's Power Smart Home Energy Profile, an online tool, is a component of our h.e.l.p. program. Customers can visit www.bchydro.com, type in information about their home, and receive a personalized report providing recommendations for reducing power consumption. Tens of thousands of our customers have visited our Web site to learn how to lower their energy costs.

For customers seeking assistance in implementing energy-saving upgrades, we continue to offer the Power Smart Home Improvements program (HIP). This program enables BC Hydro-registered contractors to carry out upgrades to our customers' homes. As well, we have a Power Smart New Home program and Product Endorsement program to deliver the benefits of Power Smart to our residential customers.

BC Hydro's commercial and industrial customers will also benefit from Power Smart solutions. Energy audits will be conducted in schools and hospitals, helping them implement energy-saving initiatives. Industrial customers will also be encouraged to embark on energy-efficient upgrades.

## HIGH-TECH PARK TENANTS GUARANTEED POWER SMART POWER

Schroeder Properties Ltd. is partnering with BC Hydro to ensure its new high-tech park is truly Power Smart. The proposed $500-million development, called Tech Park, is the first and largest fully-integrated, advanced-technology business park in North America.

We will work with each park tenant to provide customized Power Smart solutions to address their specific power and power quality needs. Each tenant will be able to select from a menu of tenant improvement options, such as enhanced lighting design, critical power protection, and metering and monitoring solutions.

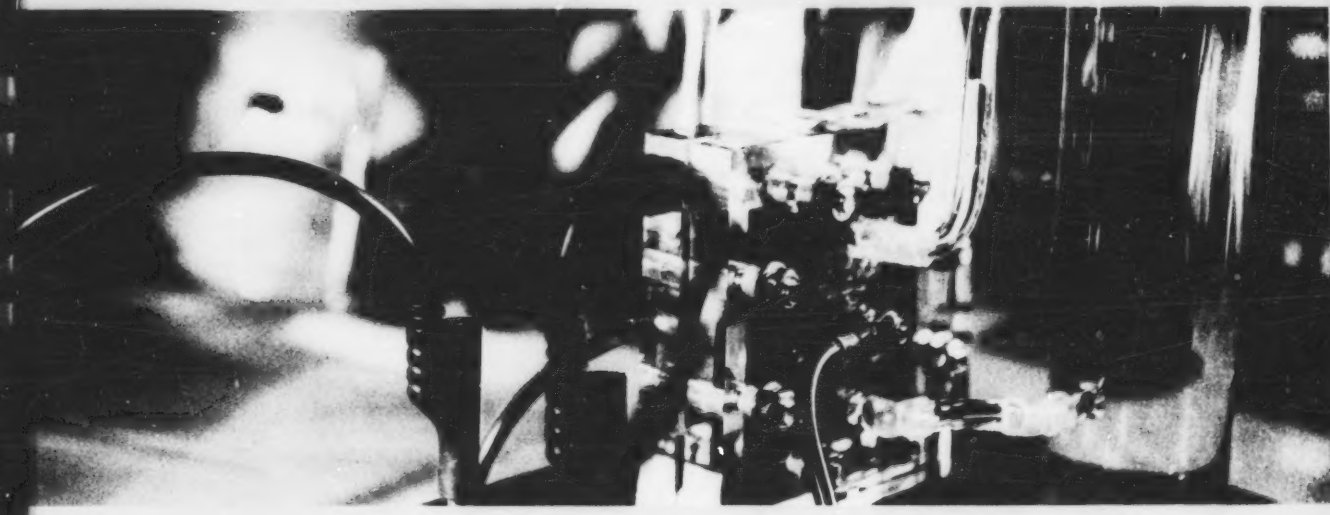
## BUSINESS SOLUTIONS THAT MAKE SENSE

With annual energy costs of over $2 million, Vancouver International Airport Authority management needed to know specific information about its electric consumption. Without detailed information, management was finding it difficult to make budgeting decisions or identify and address energy inefficiencies. Our Load Analysis experts closely monitored the airport's energy consumption and were able to recommend cost-effective ways to help the airport become Power Smart. We are now working with management to find ways to ensure new terminal facilities are as energy efficient as possible. In addition, we are developing an overall, comprehensive energy plan for the airport's entire site.

# LEADING THE WAY

## TO CLEANER, SAFER,

## MORE EFFICIENT TECHNOLOGIES



Cleaner, more efficient and effective ways to produce and use energy – that is the focus of our research and drive to be a technological leader. Through alliances, partnerships and investments in local companies, we are helping to develop the energy technologies of the future.

**PRODUCING HYDROGEN FOR VEHICLES:** BC Hydro is the first North American utility to announce plans to supply hydrogen for zero-emission vehicles, by using electricity to produce hydrogen from water electrolysis. B.C. is at the forefront of fuel cell technologies, where hydrogen plays a key role in development.

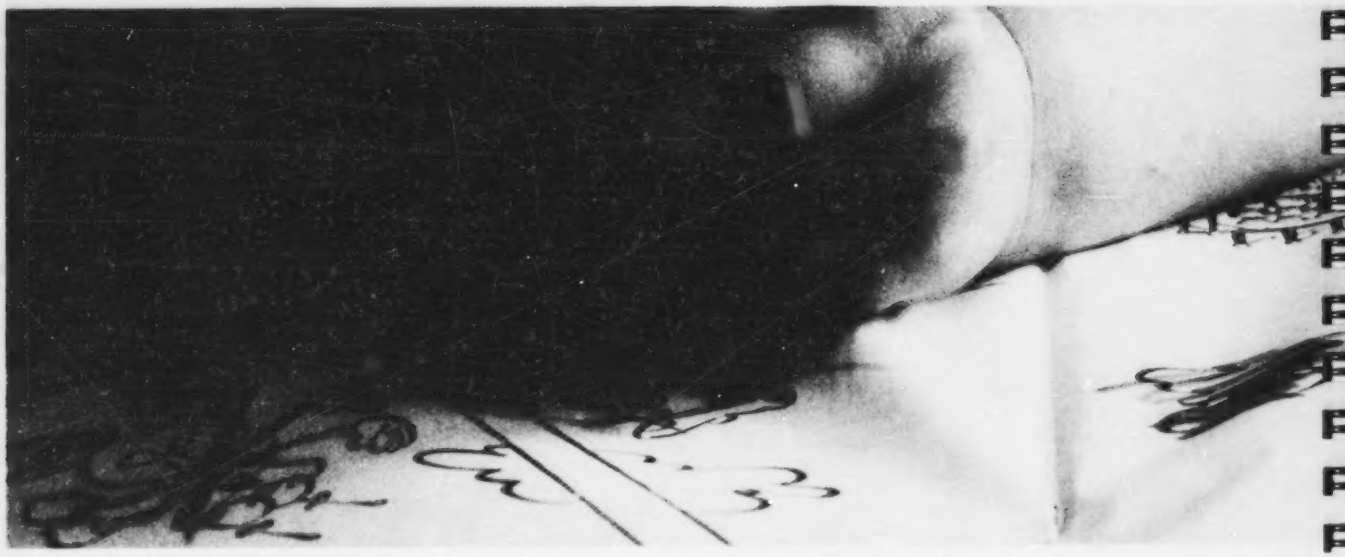
**TESTING FIBRE-OPTIC SENSORS:** BC Hydro and Powertech, our research subsidiary, partnered with a local company to develop fibre-optic sensors for high-voltage applications. Testing of the sensors is now underway at our Ingledow substation. If successful, the environmentally friendly sensors, which do not use oil or greenhouse gas-emitting insulating materials, could replace conventional current- and voltage-measuring devices at our substations. In recognition of our work on this project, we are proud to have received a prestigious Synergy Award from the Natural Science and Engineering Research Council and the Conference Board of Canada.

**HARNESSING THE SUNSHINE:** We have provided financial support for the installation of building-integrated photovoltaic panels into two buildings at the British Columbia Institute of Technology (BCIT) campus. The technology, being tested for the first time in Canada, integrates electricity generation and construction materials. It may well transform the way buildings are constructed in the future.

**USING ISOLATORS FOR DAIRY FARMS:** Our new neutral isolator device helps dairy farmers combat the problem of electric shocks being transferred from milking machinery to cows. A reduction in shocks has resulted in noticeably improved dairy herd productivity. BC Hydro has now established itself as a world leader in stray-voltage issues.

**IMPROVING WATER QUALITY:** BC Hydro's Water & Wastewater Centre, the first of its kind in Canada and the Pacific Northwest, continues to help customers find ways to improve their water treatment through the use of electrotechnologies. In recognition of our work on water quality issues, we are pleased to have received the Electric Power Research Institute's 2000 End-Use Leadership Award.

# DRAWING STRENGTH THROUGH



# COMMUNITY GIVING

We recognize that the power of people is the secret to sustainability. Becoming a sustainable energy company can only be accomplished with the efforts and commitment of everyone: our employees, customers and stakeholders. We consider all British Columbians to be partners on the path to sustainability, and we make sure we recognize their help through our continued support of initiatives such as environmental programs, charities and community events.

## A POWERFUL INVESTMENT

The three components of sustainability – environmental, social and financial – are often likened to three legs of a stool: all three need to be in balance with one another to provide stability. BC Hydro has always been conscious of environmental and financial considerations, but we must work at incorporating the three bottom lines into decision-making.

We rely on public consent and the social license to operate, and have a responsibility to the communities which we serve. By communicating and consulting with our customers, the public and communities, we do our best to meet their needs. Corporate donations, educational and environmental programs, business initiatives, training opportunities... these are just some of the areas in which we invested this year.

## LISTENING TO OUR CUSTOMERS

Customers have told us what they want, and we have listened. As a result, we have extended call centre hours to be even more accessible. We have also made improvements to our AccountOnline, which allows customers to view bills and track their account using the Internet. An annual benchmark survey of 100 Canadian call centres found that 76 per cent of our customers were "very satisfied" with BC Hydro's customer service, putting us in the top quartile for performance of all companies involved in the study.

Our Express Connections service has also been an important step towards becoming more customer-focused, as residential customers can now choose and reserve specific dates for their power hook-ups.

Because occasional power outages are inevitable, we have expanded our PowerOn outage information service to be province-wide. By calling 1-888-POWERON, a toll-free number, customers can report a power outage and receive an estimate of when their lights will come back on.

## A DIFFERENT KIND OF ENERGY

This year, our employees and retirees donated more time and money to communities than ever before. The BC Hydro Employees' Community Services (HYDRECS) Fund, operated entirely by company volunteers, raised over $1 million for nearly 800 charities. The Down Syndrome Research Foundation and Resource Centre, the Autism Society of B.C. and the Campbell River Hospital Foundation were all recipients of major donations.

BC Hydro's Corporate Outreach program also donated $3 million to non-profit groups involved in four key areas: Aboriginal; Arts and Culture; Education; and Environment. The 500 funding recipients included a high school reading program, B.C. Rivers Day, and the Seventh Generation Club for First Nations school children. There are currently 4000 children in the Seventh Generation Club who are encouraged to stay at school and work hard through fun giveaways, contests and other incentives. As well, we awarded over 3000 scholarships to students in British Columbia.

The BC Hydro Power Pioneers, retirees of the company, have partnered with the B.C. Crime Prevention Association to implement the Wise Owl program. Using a "seniors teaching seniors" approach, trained Pioneers make presentations to seniors groups throughout the province on consumer safety issues.

## SAFETY FIRST

Police, firefighters and paramedics all face electrical hazards on a regular basis. This year, 3720 of these "first responders" attended BC Hydro safety training. The sessions addressed hazard identification and safety protection procedures in emergency situations involving electricity.

In addition, we stepped up public safety efforts with a strong radio and newspaper campaign designed to educate the public – especially industrial workers – about "the shocking truth" of on-site electrical accidents.

More than 45 000 grades 4 and 5 students around the province learned about electrical safety through classroom presentations. And Louie the Lightning Bug, our safety mascot, enjoyed TV cartoon celebrity status while teaching young children to "play it safe" around electricity.

## MANAGING THE RELATIONSHIP

All BC Hydro's business units are in the process of adopting an Environmental Management System (EMS) as part of ongoing efforts to operate the power system in a sustainable manner.

An EMS helps us manage environmental issues systematically and consistently. BC Hydro's EMS is based on ISO 14001, an environmental management standard recognized worldwide.

## TEACHING CHILDREN IT IS GOOD TO BE GREEN

Educating young power users about the "green" energy sources of the future is important, so we are sponsoring an exhibit at Science World to introduce children to the idea of sustainability. BC Hydro is also a partner in the Knowledge Network's "Planet Education" television show.

Our Involvement in Education program provides primary and secondary school teachers with information and resources to help teach about energy and conservation. In 2001 we introduced an exciting new education module for students in grades 4 to 7 to learn about wind, biomass and other green sources that will be part of B.C.'s energy future.

As well, our Power Smart Youth Team made over 300 energy education presentations to Grade 4 classes around the province, and more than 3500 school children visited the Burrard generating station in Port Moody to see for themselves how power is generated.

## GIVING BACK TO THE ENVIRONMENT

To conserve and enhance fish and wildlife populations affected by BC Hydro facilities, we jointly fund compensation programs with BC Fisheries and the Ministry of Environment, Lands and Parks. This year, three programs covering the Peace, Columbia and Bridge-Coastal river systems carried out 108 fish and wildlife projects – including two of the largest, most successful lake restoration programs in the world.

The Arrow Lakes Reservoir restoration program, in particular, exceeded all expectations. When it began two years ago the kokanee fishery was closed and kokanee stocks were on the verge of collapse. Now, after nourishing the lake with liquid fertilizer, the kokanee population has tripled to over 10 million, the fish are bigger, and the fishery has been re-opened.

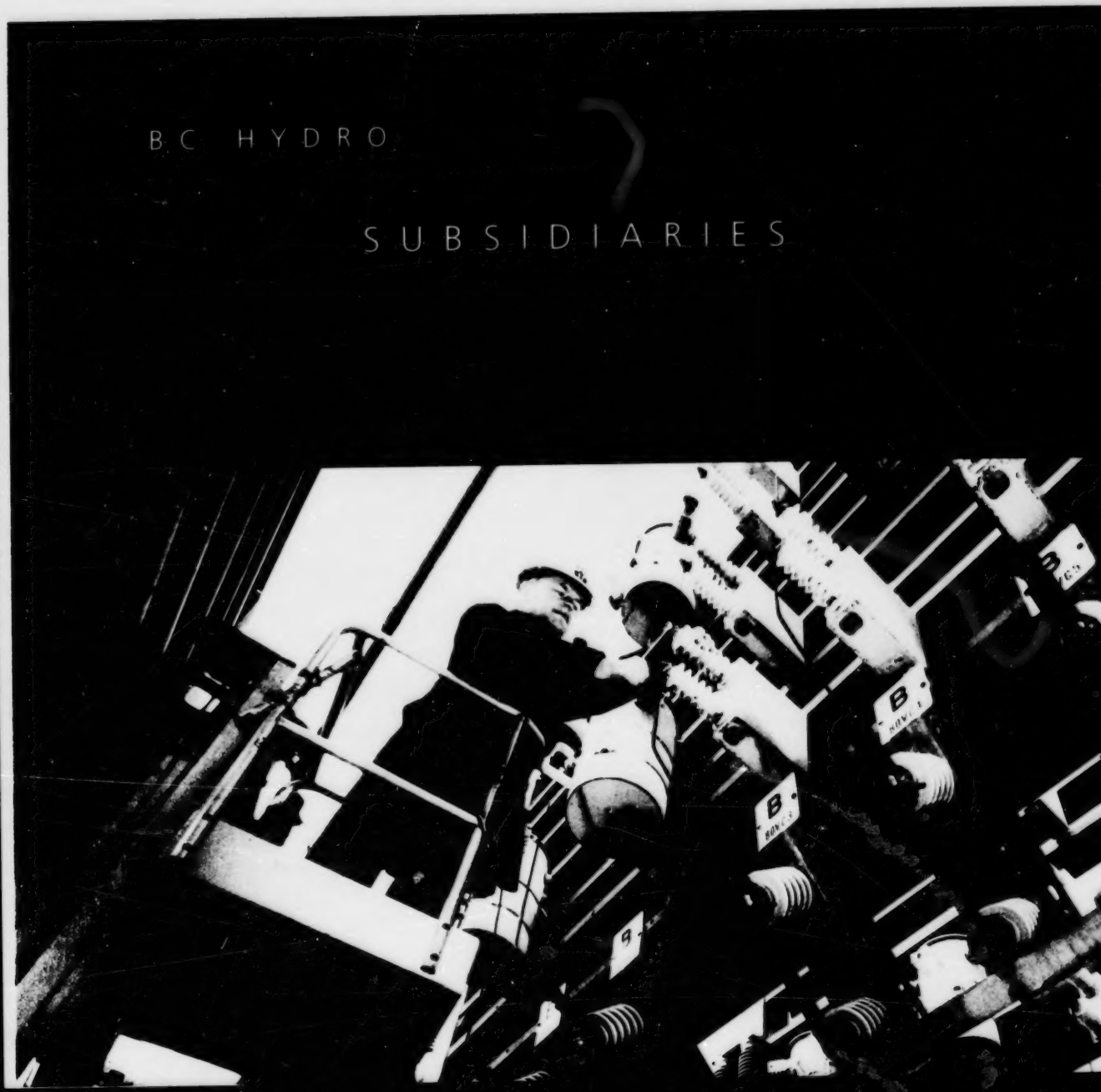
We also continue to look for ways to reduce our impact on wildlife and the environment when creating electricity and moving it around the province.

For example, to improve life for Vancouver Island's bald eagle population, our biologists have been mapping eagle nest sites and conducting studies to determine whether or not BC Hydro power lines obstruct the birds' flight paths and jeopardize their safety.

We use recycled utility poles to create public wildlife viewing platforms and towers on transmission corridors. Bird-watching towers were built at the Nanaimo, Sayward and Zeballos river estuaries to help protect the sensitive habitat, while platforms and boardwalks are under construction in Parksville, Port Hardy and Campbell River.

BC HYDRO

# SUBSIDIARIES



BC Hydro International (BCHIL), a wholly owned subsidiary of BC Hydro, provides technical and management expertise to the electrical power industry worldwide.

This year BCHIL worked with a number of domestic and international clients on a wide range of technical services. Projects included fire risk assessments for Ontario Power Generation; ongoing technical support for Yukon Energy; control engineering for an oil drilling platform in Indonesia; and water use planning in Romania.

In addition to its engineering services in dam design and construction, and overhead and submarine transmission engineering, BCHIL focused on a number of value-added products and services such as operations, maintenance and management of facilities; software for capital planning and decision support; warning and monitoring systems for dams; and Demand Side Management programs (Power Smart) and energy services.

BCHIL's objectives, in addition to providing a profit for the corporation, include supporting British Columbia businesses, particularly engineering firms that are exporting their services worldwide. BCHIL also provides developmental work opportunities for its technical staff, who make an important contribution to the knowledge base at BC Hydro.

## BRAZIL

This year BCHIL continued to provide energy conservation expertise to the Brazilian utility Eletrobas. This Canadian government-supported initiative is assisting the Brazilian government to develop a national energy conservation program.

## CHINA

BCHIL, in association with Canadian engineering companies SNC Lavalin and Acres International, recently completed its part of a long-term consulting contract on the Xiaolangdi project on China's Yellow River. This major water control and generation project will provide 1800 megawatts of electrical generation.

## THE MIDDLE EAST

BCHIL, in association with Teshmont, a Winnipeg-based engineering firm, completed the engineering and supervision of the installation of a 400-kilovolt submarine cable between Egypt and Jordan.

## UNITED STATES

BCHIL continued to develop plant modernization guidelines for the Electric Power Research Institute in the U.S. The guidelines are based on the systematic approach BC Hydro uses to assess the long-term maintenance and upgrade needs of its own generation plant. This system, combined with internally developed decision support software, forms the basis of a product line currently under development at BCHIL.

It was a year of strong growth for Westech, BC Hydro's high-tech subsidiary company. Sixty new consultants increased employee numbers to 350. The additional expertise, and a significant new technology training program, enabled the company to focus on maintaining support for the many BC Hydro information technology (IT) initiatives, as well as expanding its external client base.

This year Westech had the distinction of being ranked in the top 30 technology companies in British Columbia. The company expects to be a major participant in British Columbia's drive to establish a vibrant and growing high-tech industry.

## NEW PRODUCTS TO MANAGE OUTAGES

Westech continued to play a major role in BC Hydro's Enterprise Geospatial Information Systems (EGIS) initiative. Working closely with GESmallworld, they completed implementation of GESmallworld's PowerOn™ product at BC Hydro. PowerOn is an outage management tool, representing the operational state of BC Hydro's electric distribution network and facilitating power restoration. Also, as part of the EGIS initiative, Westech developed the Power Grid application suite for BC Hydro to help manage transmission corridors and adjacent properties. GESmallworld will be marketing it worldwide as their Transmission Grid Manager™ product.

Westech further partnered with GESmallworld to prepare a major new release of its Design Manager™ product, using expertise from developing and implementing the Distribution Analysis and Design System for BC Hydro. Westech's experience with the suite of GESmallworld products will be used to expand its business with utilities throughout North America.

## DEVELOPING E-BUSINESS EXPERTISE

This year Westech completed a variety of Internet and Intranet projects for BC Hydro and external clients. Projects included a business-to-business site for Checkpoint Auto, enhancement of the Ministry of Forests' Forest Asset Management system, and enhancement and support for sales of the BC Gas Emergency Manager system.

## MAKING FINANCIAL SYSTEMS PAY

After successfully implementing a new pay system at BC Hydro using the PeopleSoft Enterprise Resource Planning product, Westech is now supporting BC Hydro's PeopleSoft-based financial systems replacement.

# FINANCIALS


MANAGEMENT DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT REPORT

AUDITORS' REPORT

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RETAINED EARNINGS

BALANCE SHEET

CASH FLOWS

SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PERFORMANCE REPORT

# BC HYDRO
# MANAGEMENT
# DISCUSSION
# AND ANALYSIS

Powerex, BC Hydro's power marketing subsidiary, enjoyed a record-breaking year in fiscal 2001. In the first quarter alone, Powerex revenues broke the billion-dollar mark, nearly matching total revenues for the previous year. The company went on to increase revenues by over a billion dollars each quarter, ending the year with total sales of over $5 billion.

## A COMBINED EFFORT

Powerex's success can be attributed to the experience, skills and market knowledge of Powerex staff, coupled with the ability of BC Hydro's Power Supply group to manage Hydro's electric generating system to maximize value. As well, unique market conditions in California resulted in an unusually high demand for power in the state and market-driven high prices for electricity.

## WORKING IN PARTNERSHIP WITH CUSTOMERS

Powerex worked with three of BC Hydro's large industrial customers who wanted to take advantage of the strong market opportunities in 2000. In a one-time event, the customers agreed to shift the timing of their energy use during a high market demand period to a lower one. Powerex was then able to sell the resulting extra power on the spot market and the benefits were shared.

## EXPANDING ITS PRESENCE

This year the company continued to expand its market east, signing enabling agreements with utilities and marketers across the U.S. Powerex is currently exploring setting up a small satellite office in Toronto to be ready for new business in the eastern regions when the Ontario marketplace opens up to wholesale competition.

Staffing levels have been increased across all areas to support Powerex's growth in trade and marketing activities. With a staff of close to 120, the company has expanded its offices, building a larger trade floor at its downtown Vancouver location.

Powertech is BC Hydro's research and development subsidiary, providing high-tech research and technology solutions internationally. While Powertech's core client group remains the electrical utility industry, a continued focus on meeting clients' needs helped attract many new customers this year. Clients range from small firms to very large multinational corporations.

## CONTRIBUTING TO RELIABILITY

Electric utilities seek increased output from their assets, and Powertech is able to help them meet their objectives.

Powertech continued to perform generator field measurements and develop computer models to assist electric utilities in meeting their obligations to the Western Systems Coordinating Council (WSCC) and other regional councils of the North American Electric Reliability Council (NERC). Powertech's combination of practical measurement skills and power system computer modeling expertise makes an important contribution to the reliability of North America's electricity systems.

The Electric Power Research Institute (EPRI) contracted Powertech to investigate techniques for assessing the condition of aging electric power cables. Most utilities rely on extensive networks of underground cables to distribute power in cities. These cables become less reliable as they age, and eventually have to be replaced. Powertech is developing diagnostic tools to help utilities assess cable condition and expected service life without having to dig the cables up.

## HELPING UTILITIES WORK SMARTER

Powertech has worked with a number of utilities, both in North America and in other parts of the world, on power system studies to help them optimize equipment operation.

This year, Powertech entered into an agreement with the Alberta Research Council, Hydro-Québec and the Canadian federal government to develop intelligent computer systems to further enhance the operation and security of electric power systems.

## LEADING THE WAY WITH NEW TECHNOLOGY

The introduction of new technology into an area of operations is often an efficient way to solve problems.

Powertech is currently developing a high-resolution "camera" for BC Hydro to inspect distribution hardware for cracks or other signs of impending failure. The radio-controlled camera will be mounted on an insulated boom, which will allow safe, high-definition inspections without de-energizing equipment.

Powertech is also working with BC Hydro and other organizations to develop equipment and gain expertise working with hydrogen as an alternative fuel for vehicles. The initiative includes the establishment of a hydrogen generation and compression fuelling station. The use of hydrogen for vehicles is particularly attractive in an area with hydroelectric generation, as hydrogen production and consumption occurs without causing any emissions.

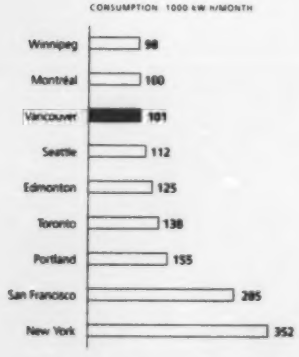
# MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes.

## KEY HIGHLIGHTS

- Net income of $446 million was $30 million higher than that earned during the same period last year. Before the transfer to the Rate Stabilization Account and the Customer Profit Sharing, net income of $859 million was $314 million higher than that earned in the prior year.
- Revenues of $7,889 million were $4,409 million, or 127 per cent, higher than prior year. This growth was mainly due to higher electricity trade revenues from the U.S. primarily as a result of an increase in market prices for energy.
- Domestic tariff rates, rates BC Hydro customers pay for electricity within B.C., remained frozen and have not increased since April 1993. These rates continue to be amongst the lowest in North America.
- The transfer to the Rate Stabilization Account (RSA) amounted to $103 million for fiscal 2001. The balance in this account can be used to offset any rate increases that may be required in order for BC Hydro to meet its allowed return on equity in future years.
- Net long-term debt of $6,214 million has decreased by close to $1.2 billion over the last five years.
- Customer Profit Sharing totaled $310 million for fiscal 2001. On February 7, 2001, the Province directed BC Hydro to pay its residential tariff customers, West Kootenay Power and the Corporation of the City of New Westminster payments equivalent to $200 per residential customer. This amount was deducted from income.

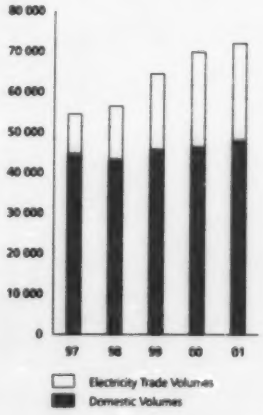
COMPARATIVE INDEX OF ELECTRICITY PRICES - RESIDENTIAL CUSTOMERS



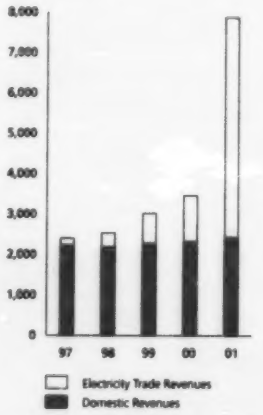

BC Hydro continues to have amongst the lowest electricity prices for its domestic customers in North America.

Hydro-Québec = 100
Monthly billings (excluding all taxes)
Rates in effect May 1, 2000
Source: Hydro-Québec: Comparison of Electricity Prices in Major North American Cities.

DOMESTIC AND ELECTRICITY TRADE SALES VOLUMES




DOMESTIC AND ELECTRICITY TRADE SALES REVENUES




Domestic sales volumes and revenues have increased by an average of approximately 2 per cent per year over the last five years. The growth in electricity trade sales volumes and revenues is largely due to the opening up of the electricity trade market and the increase in market prices. Electricity trade sales volumes have increased by 14 per cent over the last five years while corresponding revenues have increased by over 3000 per cent.

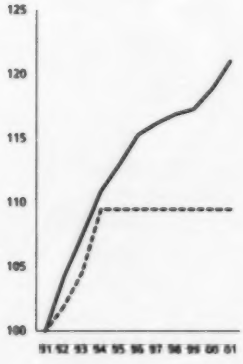
## RESULTS

BC Hydro continues to have amongst the lowest tariff rates in North America and also has strong reliability ratings compared to other utilities. BC Hydro continued to deliver on its strategic plans and exceeded its financial targets in fiscal 2001. Net income before the customer profit sharing and the transfer to the Rate Stabilization Account totaled $859 million, an increase of $314 million, or 58 per cent, from the previous year.

Revenues more than doubled from the prior year, increasing by $4,409 million to $7,889 million. Higher electricity trade revenues accounted for 98 per cent of the total increase in revenues. Total expenses also grew, reaching $6,471 million for a $4,115 million increase, $3,828 million of which is traceable to higher energy costs needed to support domestic and electricity trade demand. Finance charges totaling $559 million declined by approximately 4 per cent from the previous year.

ANNUALIZED RATE INCREASES VS. CONSUMER PRICE INDEX

INDEXED TO MARCH 31, 1991




BC Hydro has not had a rate increase since April 1993. Given inflation over the last ten years, real electricity rates for BC Hydro's domestic customers have declined by approximately 12 per cent.

## DOMESTIC REVENUES

### RESIDENTIAL

Residential revenues of $892 million were $2 million lower than in the previous year, primarily as a result of a decrease in the average consumption per customer. This decrease was almost offset by an increase in revenues due to the addition of over 13 400 residential customers since March 31, 2000.

### LIGHT INDUSTRIAL AND COMMERCIAL

Light industrial and commercial revenues of $866 million were $17 million higher than for the same period last year. Most of the increase resulted from customer growth, mainly in the service sectors. A total of 2153 new customers were added over the last twelve months.

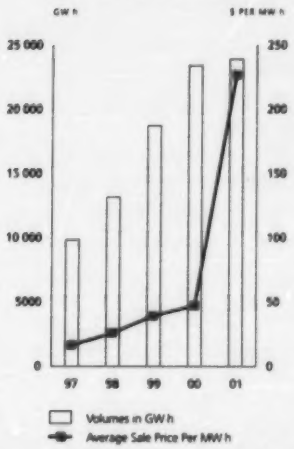
### LARGE INDUSTRIAL

Large industrial revenues of $524 million were $42 million higher than for the same period in the previous year. The increase was primarily due to the return to production of two major customers that had temporarily shut down for several months in the prior year. An increase in sales to pulp and paper and copper mining customers, as a result of increased demand due to improving commodity prices earlier in the year, also contributed to the increase in revenues.

### OTHER ENERGY SALES

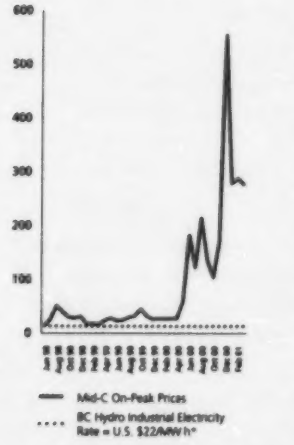
Other energy sales include the sale of energy to other utilities within B.C. and sales of firm energy to those outside the province under long-term contracts which are reflected in BC Hydro's domestic load requirements. Other energy sales increased 25 per cent from the prior year to $90 million due to increased demand. BC Hydro's low tariff rates, compared to market prices for energy, made it more economic for our domestic wholesale customers to purchase energy from BC Hydro instead of purchasing it in the open market.

ELECTRICITY TRADE VOLUMES AND AVERAGE SALE PRICES




Electricity trade sale prices have increased significantly over the last five years with prices increasing from an average of $16.7/MW·h in 1997 to $227.1/MW·h in fiscal 2001.

MID-COLUMBIA ON-PEAK PRICES




Electricity trade market prices that are relevant to BC Hydro are strongly influenced by market conditions in the Pacific Northwest and in California, where the majority of BC Hydro's electricity trade transactions occur. Market prices at the Mid-Columbia trading hub in central Washington State are indicative of the prices in the Pacific Northwest. As can be seen, market prices have been extremely volatile over the last several years and are significantly above BC Hydro's domestic tariff prices.

* Assumes exchange rate of $1.50 Can. to $1.00 U.S.

## ELECTRICITY TRADE REVENUES

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. This interconnection facilitates sales and purchases of electricity outside British Columbia. In carrying out its electricity trade transactions, BC Hydro ensures the careful and optimal management of its reservoirs over a horizon of several years. It also ensures its ability to meet domestic supply requirements is not exposed to undue risk as a result of these transactions. Electricity trade transactions are carried out by Powerex, a wholly owned subsidiary of BC Hydro.

Electricity trade revenues of $5,458 million were $4,329 million higher than the prior year. This increase was primarily due to higher average sale prices which increased significantly from $47.2 per MW·h in fiscal 2000 to $227.1 per MW·h this year. Corresponding sales volumes increased by 490 GW·h, or 2 per cent, to 23 900 GW·h.

The higher market prices for electricity and the increased volatility in these prices were primarily caused by several factors relating largely to the California market and its electricity market restructuring problems. A decade-long lack of new generating capacity in California, combined with a stronger than expected state economy which increased the demand for electricity to unprecedented levels, put significant upward pressure on prices. Dry conditions which have reduced the ability to generate hydroelectric power throughout the region, unusual weather conditions and an increase in natural gas prices during fiscal 2001 also combined to send market prices soaring. The effective management of BC Hydro's storage and generation capabilities allowed it to take advantage of the significant price volatility in the market to maximize the profitable import and export of power. BC Hydro's system helps create opportunities to buy energy when prices are lower and sell energy in the electricity trade market during higher-priced periods. BC Hydro's short-term energy sales and purchases were made at prevailing market prices.

During the year, a significant portion of BC Hydro's electricity trade activities focused on sales in the California market. Revenues from the California market accounted for 42 per cent of the total electricity trade revenues in fiscal 2001, compared to 30 per cent in fiscal 2000. The volume of sales to the California market amounted to 28 per cent of total electricity trade sales in fiscal 2001, the same percentage as in fiscal 2000. These transactions into the California market were primarily executed through the California Power Exchange (Cal Px) and California Independent System Operator (Cal ISO). Other entities, mainly California utilities, purchased the energy from the Cal Px and Cal ISO at market prices, but California public utility regulation has not allowed them to recover the full value from their customers. This resulted in some California utilities defaulting on their obligations to the Cal Px and Cal ISO. The value of unpaid balances related to these parties totals US $289 million. A portion of this amount was not recognized as revenue due to the market uncertainty. BC Hydro has recorded provisions for uncollectible amounts, which in management's best estimate are sufficient to cover any remaining exposure. BC Hydro is continuing to pursue these amounts and continues to sell on a shorter-term to payment basis to the California market through an agency of the State of California. In addition, Powerex has suspended most activities with counterparties who have significant exposure to the California market until the situation in California can be resolved.

## ENERGY COSTS

Energy costs, domestic demand and electricity trade activities are managed using a portfolio approach. BC Hydro has sufficient committed resources to meet its domestic demand, but may choose to purchase energy in the electricity trade market from time to time to meet this demand if it is economic to do so. BC Hydro uses sophisticated models and techniques to determine when it is economic to purchase energy in the electricity trade market, in place of using its hydro or thermal generating facilities to meet domestic demand, and when it is economic to generate energy for sale in the electricity trade market. These techniques take into consideration variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| | (MILLIONS OF DOLLARS) | | (GIGAWATT-HOURS) | | ($ PER MW·h) | |
| Hydro | $ 255 | $ 276 | 44 834 | 49 985 | $ 5.7 | $ 5.5 |
| IPP purchases | 116 | 109 | 1 972 | 2 024 | 58.8 | 53.8 |
| Other energy purchases | 4,036 | 749 | 25 893 | 21 188 | 155.9 | 35.3 |
| Natural gas | 452 | 81 | 4 438 | 1 654 | 101.8 | 49.0 |
| Non-integrated | 13 | 11 | 94 | 94 | 138.3 | 117.0 |
| Transmission charges and other expenses | 290 | 108 | | | | |
| Total | $5,162 | $1,334 | 77 231 | 74 945 | $ 66.8 | $ 17.8 |

Energy costs of $5,162 million increased by $3,828 million from the same period last year. This increase was primarily due to:

- AN INCREASE IN THE PRICE OF ELECTRICITY AND GAS PURCHASES

The combined average price of electricity and gas purchases in fiscal 2001 increased by more than four times from the prior year. This increase accounted for over 65 per cent of the total increase in energy costs. Energy purchases are largely used for future resale during higher-priced periods in the electricity trade market. Energy purchases are also used to supplement hydro generation in meeting domestic load requirements when economic.

- AN INCREASE IN THE VOLUME OF ELECTRICITY AND NATURAL GAS PURCHASES DUE TO A DECREASE IN LOW-COST HYDRO GENERATION

The availability of low-cost hydro generation has a significant impact on energy costs. This is because the variable cost of hydro generation is substantially less than the cost of electricity purchases or natural gas purchases, used primarily for the operation of the Burrard Thermal Generating Station. Hydro generation declined by 9 per cent this year, mainly due to a 13 per cent reduction in the level of water inflows into BC Hydro's reservoirs. The decrease in hydro generation and the corresponding increase in energy purchases contributed approximately 20 per cent of the total increase in energy costs.

The lower level of water inflows during the year contributed to BC Hydro being in a net import position of approximately 1700 GW·h for the year. This means more energy was purchased for use in the BC Hydro system than was sold in the electricity trade market, thereby conserving reservoir levels. The additional water stored in the reservoirs will be used to generate electricity needed to meet increased domestic demand in future years.

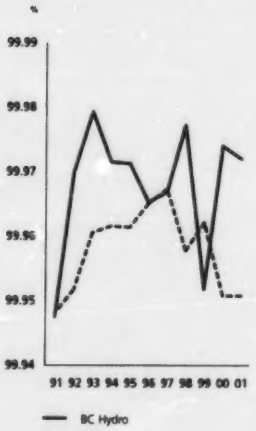
- AN INCREASE IN THE VOLUME OF ENERGY PURCHASES REQUIRED TO MEET THE INCREASE IN DEMAND

Total sales volumes were 3 per cent, or 2179 GW·h, higher than the prior year, with close to 80 per cent of the increase relating to domestic load growth. The increase in sales volumes was met using generation from the Burrard Thermal Generating Station and energy purchases. This accounted for approximately 10 per cent of the total increase in energy costs.

- AN INCREASE IN ELECTRICITY TRADE TRANSMISSION COSTS

The cost of transmitting energy into the U.S. market increased significantly, largely due to higher California power pool charges and other service costs. A portion of the U.S. transmission charges is based on the market price of energy. Therefore, transmission costs increased as a result of an increase in market prices for energy.

AVERAGE SYSTEM AVAILABILITY INDEX (ASAI)




The ASAI is a measure of system reliability. BC Hydro's ASAI has remained stable and is consistently better than the Canadian Electricity Association (CEA) composite. In 1998/99, BC Hydro's index was lower than the CEA composite because of adverse weather conditions experienced during the year. The winter in 1998/99 was the stormiest November–March period in British Columbia in 27 years.

## OPERATIONS, MAINTENANCE AND ADMINISTRATION

Operations, maintenance and administration expenses (OMA) of $755 million increased $280 million over the prior year. This increase was primarily due to a provision recorded to cover the exposure to uncollectible receivables as a result of the situation with some of our trading partners in California (refer to page 38 for further details). An increase in environmental and maintenance expenditures, together with higher pension costs, also contributed to the increase in OMA expenses.

As part of its efforts to be a sustainable energy company, BC Hydro has committed to remove and destroy all PCBs on its properties and equipment situated in sensitive areas within the next several years. As a result, BC Hydro recorded a provision for these estimated expenditures in fiscal 2001.

The increase in OMA expenses was also due to costs needed to maintain the company's aging fleet of assets in order to ensure continued system reliability and to service customer growth. An increase in expenditures was also needed to support the increase in electricity trade activities and to take advantage of market opportunities.

Higher pension costs – primarily as a result of a mandatory change in the accounting for employee post-retirement benefits – also resulted in an increase in OMA costs. This change in accounting standards applies to every company that has post-retirement benefit plans, and requires that the cost of these benefits be accounted for on an accrual instead of a cash basis for the years after fiscal 2000.

BC Hydro continues to invest in programs and initiatives designed to increase efficiencies and add value for its customers and shareholder.

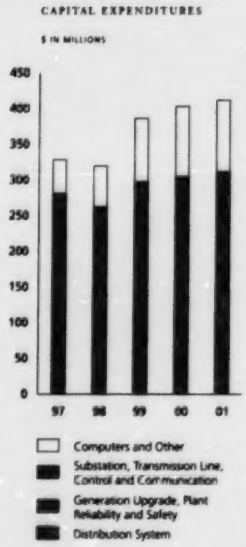
## DEPRECIATION AND AMORTIZATION

Depreciation and amortization was $380 million, compared with $375 million for the previous year. The increase reflects more assets in service due to customer growth and consequent system reinforcement.

## FINANCE CHARGES

| | 2001 | 2000 | CHANGE |
|---|---|---|---|
| | (MILLIONS OF DOLLARS) | | |
| | $ 559 | $ 579 | $ 20 |
| Changes: | | | |
| Volume of debt | | | 39 |
| Interest rates | | | (23) |
| Other | | | 6 |
| Foreign exchange | | | (2) |
| | | | $ 20 |

Finance charges decreased primarily due to a lower average volume of net debt resulting from the increase in cash flows from electricity trade activities. This decrease was partly offset by the increase in financing costs due to higher short-term interest rates. Canadian interest rates on variable rate debt increased 15 per cent from an average of 4.89 per cent in fiscal 2000 to 5.64 per cent in fiscal 2001.




## CAPITAL EXPENDITURES

The total of BC Hydro's capital expenditures, excluding Demand Side Management programs, was $412 million in fiscal 2001, an increase of $9 million from the previous year.

Distribution system expansion and improvements to service customer growth accounted for $146 million in expenditures, a slight increase from the $139 million last year. Expenditures on generation upgrade, plant reliability and safety projects decreased by $22 million from fiscal 2000 to $114 million in fiscal 2001, while $152 million was spent on other substation, transmission line, computers, and control and communications projects.

The decrease in expenditures on plant reliability projects is mainly due to the approximately $20 million incurred in the prior year relating to the upgrades to some transmission line towers that were damaged by high snowpack pressure.

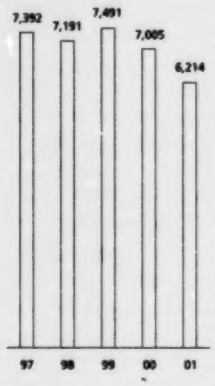
Generation upgrade costs include $22 million which was primarily for the Burrard Upgrade Project, a necessary expenditure to comply with regulatory requirements and to retain the plant's energy supply capability. The 912-MW natural gas-fired conventional thermal facility provides up to 12 per cent of BC Hydro's firm supply and has been undergoing a major upgrade since 1994. The fiscal 2001 expenditures at Burrard Generating Station consisted of mandatory health, safety and regulatory upgrades to the plant, installation of the sixth and final Selective Catalytic Reduction (SCR) system and completing work on three of the six generating units to improve efficiency and operability. The SCRs are the first to be installed on utility boilers in Canada and are achieving a 90 per cent reduction in emissions of nitrogen oxide ($NO_x$) from the ISO 14001-registered plant. These expenditures also include rehabilitation work on one of the generators that had a major failure during the year; it is expected to be in-service in August 2001.

Transmission line costs include $10 million for the replacement of 2L39 and 2L40 underground transmission cable circuits which had exceeded their design lives. These circuits are part of the metropolitan area grid which provides supply to south Burnaby, New Westminster and south Vancouver areas. The fiscal 2001 expenditures consisted of reviews of the tenders for the supply and installation contract, construction of an access road to the Hill Avenue site, soil densification of the Hill Avenue terminal station, tunneling under Highway 1 to install new ducts for both circuits, cables and repairs of existing ductbanks. The replacement of 2L39 and 2L40 is expected to be completed by March 2002.

Plant reliability costs include expenditures of $10 million for the Georgia Strait Crossing Project (GSX). The GSX is a joint project by BC Hydro and Williams Gas Pipeline Company to build a pipeline to transport natural gas from the supply hub at Sumas, Washington to Vancouver Island. This pipeline will cross the Strait of Georgia and connect to an existing pipeline on Vancouver Island to supply generating plants on the Island. This pipeline will help ensure the continued reliable supply of energy for Vancouver Island residents. Fiscal 2001 expenditures for the GSX project relate to numerous technical surveys and environmental studies, finalization of business arrangements, preparation of the application to the National Energy Board (NEB) and Federal Energy Regulatory Committee (FERC), as well as discussion of the project with the public, applicable government agencies and other interested parties. These findings have been included as part of the preparation of the regulatory applications to NEB and FERC. Construction of the pipeline is expected to be completed by the fall of 2003 for an initial estimated cost of $260 million. BC Hydro is responsible for 50 per cent of these costs.

NET LONG-TERM DEBT

$ IN MILLIONS




Consists of long-term debt, including the current portion, net of sinking funds and temporary investments. Long-term debt has decreased by approximately $1.2 billion in the last five years.

## LONG-TERM DEBT

Long-term debt, net of sinking funds and temporary investments, was $6,214 million as at March 31, 2001, compared with $7,005 million as at the end of the prior year. Cash flow from operations was more than enough to cover capital expenditures and the Payment to the Province, allowing for the $791 million reduction in net long-term debt.

Debt issues for fiscal 2001 included three Canadian bond issues during May and June 2000 totaling $450 million. The issuance of these bonds was completed before the start of the unexpectedly high cash inflows from electricity trade transactions during the summer and fall of fiscal 2001. Redemptions of $179 million during fiscal 2001 consisted of the maturities of a Canadian and a U.S. bond. BC Hydro held $686 million in temporary investments at March 31, 2001, compared to $5 million on March 31, 2000.

BC Hydro continues to actively manage its debt portfolio in order to meet its objective of reducing its overall cost of debt within acceptable levels of risk. In order to meet this objective, BC Hydro maintains direct exposure to both Canadian and US dollars at fixed and floating interest rates and employs various strategies. These strategies include the use of cross-currency and interest rate swaps to rebalance its debt portfolio to its optimal position.

## PAYMENT TO THE PROVINCE

| | 2001 | 2000 |
|---|---|---|
| Actual return on equity | **16.59%** | 16.69% |
| Allowed return on equity [1] | **16.59%** | 16.69% |
| Payment to the Province | **$ 372 MILLION** | $ 343 MILLION |

[1] BC Hydro's allowed 1995 rate of return was approved by the British Columbia Utilities Commission in its last rate decision of November 24, 1994. The following years' rates of return were calculated by BC Hydro using the same method as in 1995. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.

BC Hydro is required to make an annual Payment to the Province equal to 85 per cent of its distributable surplus. Distributable surplus is calculated as consolidated net income adjusted for interest during construction and related depreciation.

BC Hydro's Payment to the Province increased to $372 million for fiscal 2001 from $343 million in the previous year, due largely to an increase in net income.

In addition to the above payment, BC Hydro paid $429 million in water rentals, school taxes, grants and capital tax to provincial and municipal governments in fiscal 2001.

## CUSTOMER PROFIT SHARING

On February 7, 2001, the Province directed BC Hydro to pay its residential tariff customers as of December 31, 2000, West Kootenay Power and the Corporation of the City of New Westminster payments equivalent to $200 per residential customer. These payments totaled $310 million for fiscal 2001. This amount was deducted from income.

## TRANSFER TO RATE STABILIZATION ACCOUNT

The Rate Stabilization Account (RSA) is used to mitigate the impact of fluctuating earnings on customers. In years when BC Hydro's actual return on equity is in excess of that allowed by the British Columbia Utilities Commission (the Commission), a transfer is made from income into the RSA. In lower-income years, when BC Hydro's return on equity is below that allowed, a transfer is made from the RSA, if there is a balance, to offset any rate increase that may be needed to allow BC Hydro to earn its allowed return on equity. The transfer to the RSA was $103 million in fiscal 2001, compared to $129 million in the prior year. The balance in the RSA account at the end of fiscal 2001 totaled $232 million.

## RISK MANAGEMENT

As part of its normal business activities, BC Hydro is exposed to a number of financial risks including commodity market risk; credit risk, particularly with respect to its electricity trade activities; and interest rate and foreign currency risk related to electricity trade and financing arrangements. While these risks generally cannot be eliminated, BC Hydro manages its financial risks within a range of risk tolerance established through Board-approved policies and risk limits, as well as through management oversight, risk reporting and internal controls.

BC Hydro's Risk Management Committee (RMC) is comprised of financial and operational executives of the company. The RMC is primarily responsible for establishing and assessing the appropriateness of changes to risk management policies prior to approval by the Board of Directors. The RMC also provides oversight to risk control processes to ensure that financial risks are appropriately assessed, controlled and reported, and that risk management policies and limits are adhered to.

### COMMODITY MARKET RISK

Commodity market risk is the risk of economic losses resulting from adverse changes in the market price of commodities involved in the generation or sale of electricity. BC Hydro's commodity market risk is mainly represented by the exposure to price changes in electricity and natural gas markets in western North America. Market risks arise through BC Hydro's purchasing of electricity and natural gas to support domestic electricity requirements, as well as through sales of electricity in the western United States and Canada.

BC Hydro's risk management policies are intended to ensure the availability of energy for domestic requirements, and to optimize the value associated with BC Hydro's investment in generation assets. Market risk exposure is controlled through limits on the financial risk associated with transactions in authorized products or geographic regions, inclusive of the risk associated with unsettled transactions. Commodity market risk is also controlled through financial limits on the total market exposure to transactions which are not backed by BC Hydro's generation system.

## CREDIT RISK

Credit risk arises when BC Hydro relies on other parties to honour or perform contractual obligations which have economic value to BC Hydro. This includes non-payment of balances owed to BC Hydro, as well as non-performance on contractual obligations having prices which are favourable to BC Hydro. Credit risk arises through most of BC Hydro's activities; however, the greatest exposure arises through its electricity trade activities.

BC Hydro manages credit risk through Board-approved policies, as well as individual credit limits which reflect the creditworthiness of its counterparties. The policies and credit limits are intended to limit concentrations of credit risk which may arise with respect to specific customer segments, as well as to geographic regions which may be similarly affected by changing economic, political or other considerations. However, as the number of participants and potential markets are limited, concentrations of credit risk related to electricity trade activities may arise. Where opportunities are available, these concentrations of risk are mitigated through various risk mitigation techniques including collateral, netting arrangements and insurance.

## INTEREST RATE RISK

Interest rate risk arises from potential changes in interest rates, and the associated impact on BC Hydro's cost of borrowing. At March 31, 2001, approximately $1,175 million or 19 per cent of net debt was subject to interest rate risk during the next fiscal year. Interest rate risk is managed through Board-approved policies which require the debt portfolio to be managed using an appropriate blend of fixed and floating rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.

## FOREIGN CURRENCY RISK

Foreign currency risk relates to potential changes in foreign currency rates, and the impact that this may have on BC Hydro's assets and obligations. The majority of BC Hydro's foreign currency risk results from exposure to changes in United States currency. In the normal course of its business, BC Hydro is exposed to foreign currency movements through electricity trade activities which are mainly transacted in the United States, as well as through its debt portfolio which includes a component of foreign currency denominated debt. Foreign currency risk is managed through policies and limits which are approved by the Board of Directors.

Some of BC Hydro's exposure to foreign currency movements is reduced through its normal business activities, as BC Hydro is required to settle many of its transactions through payment or receipt of amounts in foreign currency. For example, a component of BC Hydro's debt portfolio is denominated in U.S. dollars; this allows matching of US-dollar interest payments with US-dollar receipts from electricity trade activities. BC Hydro manages its remaining foreign exchange risk using a variety of financial instruments including foreign currency swaps, options and futures contracts.

## 2002 FUTURE OUTLOOK

Fiscal 2001 was an exceptional year for BC Hydro, with a record net income before Customer Profit Sharing and the Rate Stabilization Account transfer. BC Hydro's exceptional earnings were largely due to the extraordinary events occurring in the California market. Through the effective management of its storage and generation capabilities, BC Hydro was able to take advantage of the high and volatile prices in the electricity trade market to improve its net income through strategic trading decisions.

The outlook for fiscal 2002 net income is not expected to be as strong as in fiscal 2001. This is largely due to the anticipated impact of low snowpack levels and the projected low water inflows into our reservoirs for the coming year. The low inflow levels, which are projected to be one of the lowest on record, will reduce the level of hydro generation and increase the use of higher-cost sources of supply needed to meet demand. Despite these challenges, BC Hydro will have enough electricity to meet customer needs.

The electricity marketplace continues to be extremely volatile; therefore, actual results may be significantly different from those forecast. BC Hydro is well-positioned to take advantage of the volatility in the marketplace and has the expertise to effectively manage its unique business risks. BC Hydro is committed to providing low-cost, safe and reliable electricity, and is continually evaluating a wide array of business strategies to help maximize value for its customers and shareholder.

# 2001 CONSOLIDATED FINANCIAL STATEMENTS

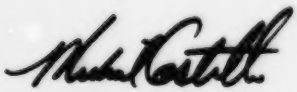
# MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 23, 2001. The consolidated financial statements have also been reviewed by the Finance Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Finance Committee.

The financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with accounting principles generally accepted in Canada. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Finance Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors and appointment of external auditors. The internal and external auditors have full and open access to the Finance Committee, with and without the presence of management.



Michael Costello
*President and Chief Executive Officer*

David A. Harrison
*Executive Vice-President,*
*Corporate Affairs and*
*Chief Financial Officer*

Vancouver, Canada
May 23, 2001

# AUDITORS' REPORT

THE LIEUTENANT GOVERNOR IN COUNCIL, PROVINCE OF BRITISH COLUMBIA:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2001 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Ernst and Young LLP
*Chartered Accountants*

Vancouver, Canada
May 23, 2001

## CONSOLIDATED STATEMENT OF OPERATIONS

| FOR THE YEARS ENDED MARCH 31 (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| **REVENUES** | | |
| Domestic | | |
| Residential | $ 892 | $ 894 |
| Light industrial and commercial | 866 | 849 |
| Large industrial | 524 | 482 |
| Other energy sales | 90 | 73 |
| Miscellaneous | 59 | 53 |
| | 2,431 | 2,351 |
| Electricity trade | 5,458 | 1,129 |
| | 7,889 | 3,480 |
| **EXPENSES** | | |
| Energy costs (Note 2) | 5,162 | 1,334 |
| Operations, maintenance and administration | 755 | 475 |
| Depreciation and amortization (Note 3) | 380 | 375 |
| Taxes (Note 4) | 174 | 172 |
| | 6,471 | 2,356 |
| **INCOME BEFORE FINANCE CHARGES, CUSTOMER PROFIT SHARING AND TRANSFER TO RATE STABILIZATION ACCOUNT** | 1,418 | 1,124 |
| Finance charges (Note 5) | 559 | 579 |
| **INCOME BEFORE CUSTOMER PROFIT SHARING AND TRANSFER TO RATE STABILIZATION ACCOUNT** | 859 | 545 |
| Customer profit sharing (Note 6) | 310 | – |
| **INCOME BEFORE TRANSFER TO RATE STABILIZATION ACCOUNT** | 549 | 545 |
| Transfer to Rate Stabilization Account | 103 | 129 |
| **NET INCOME** | $ 446 | $ 416 |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

| FOR THE YEARS ENDED MARCH 31 (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| Retained earnings, beginning of year | $ 1,385 | $ 1,312 |
| Net income | 446 | 416 |
| Payment to the Province (Note 1) | (372) | (343) |
| **RETAINED EARNINGS, END OF YEAR** | $ 1,459 | $ 1,385 |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

| AS AT MARCH 31 (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| **ASSETS** | | |
| CAPITAL ASSETS (Note 7) | | |
| Capital assets in service | $ 14,323 | $ 14,050 |
| Less accumulated depreciation | 5,256 | 4,982 |
| | 9,067 | 9,068 |
| Unfinished construction | 294 | 252 |
| | 9,361 | 9,320 |
| CURRENT ASSETS | | |
| Temporary investments | 686 | 5 |
| Accounts receivable and accrued revenue (Note 11) | 345 | 407 |
| Materials and supplies | 81 | 77 |
| Prepaid expenses | 82 | 74 |
| Unrealized gains on mark-to-market transactions | 113 | 8 |
| | 1,307 | 571 |
| OTHER ASSETS AND DEFERRED CHARGES | | |
| Sinking funds (Note 8) | 1,148 | 1,017 |
| Demand-side management programs | 116 | 146 |
| Deferred debt costs (Note 9) | 633 | 500 |
| Foreign currency contracts (Notes 10 and 11) | 28 | 21 |
| Other | 22 | 21 |
| | 1,947 | 1,705 |
| | $ 12,615 | $ 11,596 |
| **LIABILITIES AND EQUITY** | | |
| Long-term debt net of sinking funds | $ 6,485 | $ 6,311 |
| Sinking funds presented as assets | 1,148 | 1,017 |
| LONG-TERM DEBT (Note 10) | 7,633 | 7,328 |
| FOREIGN CURRENCY CONTRACTS (Notes 10 and 11) | 9 | – |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt (Note 10) | 415 | 699 |
| Accounts payable and accrued liabilities | 1,121 | 472 |
| Accrued interest | 124 | 126 |
| Accrued Payment to the Province (Note 1) | 372 | 343 |
| Unrealized losses on mark-to-market transactions | 108 | 8 |
| | 2,140 | 1,648 |
| DEFERRED CREDITS AND OTHER LIABILITIES | | |
| Provision for future removal and site restoration costs | 144 | 130 |
| Deferred revenue | 217 | 197 |
| Rate Stabilization Account | 232 | 129 |
| Contributions in aid of construction | 560 | 549 |
| Contributions arising from the Columbia River Treaty | 221 | 230 |
| | 1,374 | 1,235 |
| COMMITMENTS AND CONTINGENCIES (Note 10, 11 and 13) | | |
| Retained Earnings | 1,459 | 1,385 |
| | $ 12,615 | $ 11,596 |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Approved on behalf of the Board

Robert A. Fairweather
*Acting Chair*

Gordon Green
*Chair, Finance Committee*

## CONSOLIDATED STATEMENT OF CASH FLOWS

| FOR THE YEARS ENDED MARCH 31 (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net Income | $ 446 | $ 416 |
| Adjustments for: | | |
| Depreciation and amortization | 380 | 375 |
| Transfer to Rate Stabilization Account | 103 | 129 |
| Other non-cash items | (10) | (8) |
| | 919 | 912 |
| Working capital changes | 659 | 118 |
| **CASH PROVIDED BY OPERATING ACTIVITIES** | 1,578 | 1,030 |
| **INVESTING ACTIVITIES** | | |
| Capital asset expenditures | (375) | (395) |
| Contributions in aid of construction | 44 | 41 |
| Demand-side management programs | (1) | (3) |
| Future removal and site restoration costs | (7) | (7) |
| Other | 1 | (3) |
| **CASH USED FOR INVESTING ACTIVITIES** | (338) | (367) |
| **FINANCING ACTIVITIES** | | |
| Bonds, notes and debentures | | |
| –issued | 450 | 514 |
| –retired | (179) | (888) |
| Revolving borrowings | (504) | 24 |
| Sinking funds | (3) | (16) |
| Deferred debt costs | 17 | (8) |
| Settlement of financial instruments | 3 | 9 |
| **CASH USED FOR FINANCING ACTIVITIES** | (216) | (365) |
| **PAYMENT TO THE PROVINCE** (Note 1) | (343) | (326) |
| **INCREASE (DECREASE) IN CASH** | 681 | (28) |
| **CASH AT BEGINNING OF YEAR** | 5 | 33 |
| **CASH AT END OF YEAR** | $ 686 | $ 5 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Interest paid | $ 642 | $ 632 |

CASH CONSISTS OF TEMPORARY INVESTMENTS

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2001 AND 2000

## SIGNIFICANT ACCOUNTING POLICIES

### PURPOSE

British Columbia Hydro and Power Authority ("BC Hydro"), established in 1962 as a Crown corporation of the Province of British Columbia (the "Province") by enactment of the Hydro and Power Authority Act, has a corporate mission to provide integrated energy solutions to its customers in an environmentally and socially responsible manner. BC Hydro is subject to regulation (see Note 1) by the British Columbia Utilities Commission (the "Commission") which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation, transmission and distribution facilities in the province of British Columbia.

### CONSOLIDATION

The consolidated financial statements include the financial statements of BC Hydro and its principal wholly owned operating subsidiaries British Columbia Hydro International Limited, Powerex Corp. ("Powerex"), Powertech Labs Inc. and Westech Information Systems Inc.

### REVENUES

Domestic revenues comprise sales to customers within the province and sales of firm energy to those outside the province under long-term contracts which are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as electricity trade.

Revenue is recognized on the basis of cyclical billings and also includes electricity deliveries not yet billed.

### FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Gains and losses arising from the translation of long-term debt are deferred and amortized over the remaining term of the debt. Annual amortization is determined using a reverse sum-of-remaining-years amortization method, with straight-line amortization in the last four years.

Where foreign currency denominated long-term debt is refinanced in the same currency, any unamortized foreign currency translation gains and losses associated with the refinanced debt are amortized over the shorter of the term to maturity of the new debt or the refinanced debt. Where partial refinancing occurs in the same currency, the unamortized foreign currency translation gains or losses continue to be deferred and amortized on a pro rata basis. Where foreign currency denominated long-term debt is refinanced in a different currency, any unamortized foreign currency translation gains or losses are included in finance charges at the refinancing date.

### DEPRECIATION

Capital assets in service are depreciated on an individual or a pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of capital assets are:

| | | | |
|---|---|---|---|
| Generation | | | |
| Hydraulic | 50 – 100 | Buildings | 40 – 45 |
| Thermal | 10 – 50 | Equipment | 4 – 20 |
| Distribution | 30 – 50 | Service vehicles | 7 – 20 |
| Transmission lines | 35 – 100 | Sundry | 20 – 45 |
| Substations | 20 – 50 | | |

### FINANCE CHARGES CAPITALIZED

Finance charges are capitalized on construction in progress at rates equivalent to BC Hydro's average annual cost of borrowing (2001 – 6.76 per cent; 2000 – 5.84 per cent). The rate takes into consideration annual interest costs plus foreign exchange adjustments and amortization of premiums, discounts and issue costs.

### CAPITAL ASSETS

Capital assets in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Capital assets in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to income for assets depreciated on an individual basis, or to accumulated depreciation for assets depreciated on a pooled basis.

Unfinished construction consists of construction in progress and the unamortized balance of studies and abandoned or indefinitely deferred projects. The balance includes materials, direct and indirect labour, finance charges capitalized and an appropriate allocation of administration overhead. Costs of construction in progress are transferred to capital assets in service when the asset is substantially complete and capable of operation at a significant level of capacity.

Costs of studies and abandoned or indefinitely deferred projects are deferred and amortized on a straight-line basis over five years where it is management's intention to recover the costs through future rates. If the costs of an abandoned or indefinitely deferred project will not be recovered through continuing operations, the costs related to the project, including overhead and interest during construction, are expensed immediately.

### TEMPORARY INVESTMENTS

Temporary investments consist of cash and units of the short-term unitized bonds held with the Province and are valued at the lower of cost and market.

### MATERIALS AND SUPPLIES

Materials and supplies are valued at average cost less provisions for decline in value to net realizable value.

### MARK-TO-MARKET

BC Hydro follows mark-to-market accounting to value certain trading activities. Under mark-to-market accounting, these trade positions are recorded at fair value. Changes in the fair value of open positions, which result primarily from new transactions and the impact of price movements, are recognized as gains or losses in operating revenue in the period of change. The resulting unrealized gains and losses are recorded as trading assets and liabilities. The market prices used to determine fair value reflect management's best estimates considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors. However, it is possible that future market prices could vary from those used in recording the assets and liabilities, and such variations could be material. Revenues and cost of purchases associated with energy marketing and trading transactions, which meet the criteria for hedges, are recognized at the time of delivery of the underlying commodity.

### DEMAND-SIDE MANAGEMENT PROGRAMS

Demand-side management ("DSM") programs comprise programs designed to reduce the energy requirements on BC Hydro's system.

Expenditures on DSM programs, including materials, direct labour and applicable portions of administration charges, equipment costs, program costs and incentives, are deferred and amortized on a straight-line basis over ten years, except for project feasibility studies which are expensed as incurred.

Incentives provided to assist in the construction of third-party electric generation facilities are deferred and amortized on a straight-line basis over the expected period of operation of the facilities.

### DEFERRED DEBT COSTS

Discount and issue costs arising from debt issues are deferred and amortized on a straight-line basis over the remaining term of the debt. Premiums paid to call existing debt are deferred and amortized over the term to maturity of the new debt.

### DERIVATIVE FINANCIAL INSTRUMENTS

BC Hydro uses derivative financial instruments, principally interest rate and foreign currency swaps, options and forward rate agreements, solely to manage interest rate and foreign exchange risks related to debt.

Payments and receipts under interest rate and cross currency swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated derivative interest rate and cross currency swaps, options and forward rate agreements are deferred and amortized over the remaining term of the related contracts.

### FAIR VALUE

The fair value of bonds, notes and debentures, and sinking funds reflects changes in the general level of interest rates that have occurred since inception. The fair value of bonds, notes and debentures is based on quoted market values or, where no such information is available, is determined by discounting the expected future cash flows of this debt at market rates for debt with similar terms and conditions. The fair value of sinking fund assets is determined by discounting the expected future cash flows of these assets at market rates for assets with similar terms and conditions.

The fair value of a derivative financial instrument reflects the amount that BC Hydro would receive (or pay) to terminate these instruments at the balance sheet date. The fair value of over-the-counter derivative contracts is determined using pricing models, which take into account market prices and contractual prices of the underlying instruments, as well as time value, yield curve and volatility factors underlying the positions.

### SINKING FUNDS

Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized.

Units in the pooled bond fund are recorded at cost, adjusted by amortization of any realized and unrealized gains and losses on a straight-line basis over the weighted average term to maturity of the related debt portfolio.

Foreign currency translation gains and losses are deferred and amortized over the weighted average term to maturity of the related debt portfolio.

### FUTURE REMOVAL AND SITE RESTORATION COSTS

Provisions for the costs net of expected recoveries for future removal and site restoration arising on the retirement of capital assets are made where they can be reasonably estimated. These costs are charged to depreciation expense on a straight-line basis over the expected useful lives of the related assets. Provisions required are revised periodically in accordance with changes in BC Hydro's assumptions and estimates underlying the calculations and with experience arising from the removal of capital assets.

### DEFERRED REVENUE

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US $22 million each year for a 35-year period ending in fiscal 2020 and US $100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

### CONTRIBUTIONS

Contributions in aid of construction are amounts paid by certain customers toward the cost of capital assets required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The proceeds received were contributed to BC Hydro to assist in financing the dams' construction. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

### EMPLOYEE BENEFIT PLANS

BC Hydro has adopted the provisions of Section 3461 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, which requires that the company accrue its obligations under employee benefit plans and the related costs, net of plan assets. The change has been applied effective April 1, 2000 on a prospective basis and has increased employee future benefit costs by $5 million.

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 12 years (2000 – 12 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 12 years (2000 – 12 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

### ENVIRONMENTAL EXPENDITURES AND LIABILITIES

Environmental expenditures are incurred specifically to maintain or enhance the quality of the natural and social environment, or to minimize any adverse impact thereon. Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures relating to activities of BC Hydro are considered likely and the costs can be reasonably estimated.

### USE OF ESTIMATES

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

## NOTE 1: REGULATION

BC Hydro is regulated by the Commission, and they are both subject to general or special directions issued by order of the Province. Orders in Council from the Province establish the basis for determining BC Hydro's allowed return on equity, calculation of its revenue requirements, rates charged to customers and the annual Payment to the Province.

### PAYMENT TO THE PROVINCE

BC Hydro is required to make an annual Payment to the Province on or before June 30 of each year, with respect to the financial results of the most recently completed fiscal year. The payment equals 85 per cent of BC Hydro's distributable surplus provided the debt:equity ratio of BC Hydro after deducting the payment is not greater than 80:20.

Distributable surplus is calculated as consolidated net income adjusted by deducting finance charges capitalized during the year net of depreciation charged on capitalized finance charges. Equity is calculated as the sum of retained earnings, the Rate Stabilization Account, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction at the end of the fiscal year. Debt is calculated as the sum of revolving borrowings, bonds, notes and debentures, net of related sinking funds, temporary investments and repurchased debt at the end of the fiscal year.

### REVENUE REQUIREMENTS, RETURN ON EQUITY AND RATES CHARGED TO CUSTOMERS

The Commission is required to ensure electricity rates are sufficient to allow BC Hydro to achieve an annual rate of return on equity equal to the return allowed, on a pre-income tax basis, by the most comparable investor-owned energy utility regulated under the Utilities Commission Act. The allowed annual rate of return on equity calculated for 2001 is 16.59 per cent (2000 – 16.69 per cent). Average electricity rate increases for each year are limited to the projected rate of inflation for British Columbia plus two percentage points. For rate setting purposes, the rate of return on equity projected to be achieved by BC Hydro is determined after taking into account any available transfer from the Rate Stabilization Account.

BC Hydro's basic tariffs for all customers have been frozen until September 30, 2001.

### RATE STABILIZATION ACCOUNT

The current Rate Stabilization Account was established on March 30, 2000, to mitigate the impact of volatile earnings on ratepayers. Transfers are made to the Rate Stabilization Account during high-income years to reduce the need for rate increases in lower-income years.

Where consolidated net income, before any Rate Stabilization Account transfers, is greater than the amount needed by BC Hydro to achieve the annual rate of return on equity allowed by the Commission, then consolidated net income is decreased accordingly by an appropriate transfer to the Rate Stabilization Account.

Where consolidated net income, before any rate stabilization transfers, is less than the amount needed to achieve the allowed rate of return on equity, then consolidated net income is increased by a transfer from the Rate Stabilization Account. Transfers from the Rate Stabilization Account are subject to a positive balance existing in the account, provided BC Hydro's debt:equity ratio, after the transfers, is not greater than 80:20.

## NOTE 2: ENERGY COSTS

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| Water rentals | $ 255 | $ 276 |
| Electricity purchases | 4,158 | 866 |
| Fuel | 456 | 82 |
| Third-party transmission charges | 287 | 104 |
| Compensation and mitigation costs | 6 | 6 |
| | $ 5,162 | $ 1,334 |

Electricity purchases include $677 million (2000 – $99 million) in energy transactions with the Province. These energy transactions are in the normal course of operations and are recorded based on market prices.

## NOTE 3: DEPRECIATION AND AMORTIZATION

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| Depreciation of capital assets in service | $ 348 | $ 331 |
| Amortization of contributions arising from the Columbia River Treaty and contributions in aid of construction | (41) | (41) |
| Amortization of studies and abandoned or indefinitely deferred projects | 8 | 12 |
| Amortization of demand-side management programs | 31 | 32 |
| Future removal and site restoration costs | 20 | 29 |
| Capital asset write-offs | 14 | 12 |
| | $ 380 | $ 375 |

## NOTE 4: TAXES

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| School taxes and grants | $ 137 | $ 137 |
| Corporation capital taxes and other | 37 | 35 |
| | $ 174 | $ 172 |

Corporation capital taxes and school taxes and grants are paid to the Province unless otherwise noted. School taxes of $34 million (2000 – $33 million) and grants of $37 million (2000 – $36 million) were paid to municipalities and regional districts. All school taxes paid to municipalities and regional districts are remitted to the Province. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income tax.

## NOTE 5: FINANCE CHARGES

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| Interest on debt securities – bonds, notes and debentures | $ 631 | $ 600 |
| – revolving borrowings | 8 | 29 |
| Amortization of deferred debt costs and other expenses | 51 | 45 |
| | 690 | 674 |
| Less: | | |
| Sinking fund income | (76) | (66) |
| Other income | (42) | (13) |
| Finance charges capitalized to unfinished construction | (13) | (16) |
| | (131) | (95) |
| | $ 559 | $ 579 |

Included in interest on debt securities is $596 million (2000 – $586 million) in interest paid to the Province.

## NOTE 6: CUSTOMER PROFIT SHARING

On February 7, 2001, under an Order in Council, the Province directed BC Hydro to pay its residential tariff customers, West Kootenay Power and the Corporation of the City of New Westminster payments equivalent to $200 per residential customer. These payments totaling $310 million were deducted from income.

## NOTE 7: CAPITAL ASSETS

| (IN MILLIONS) | 2001 | | | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| | CAPITAL ASSETS IN SERVICE | ACCUMULATED DEPRECIATION | UNFINISHED CONSTRUCTION | COMPOSITE DEPRECIATION RATE | CAPITAL ASSETS IN SERVICE | ACCUMULATED DEPRECIATION | UNFINISHED CONSTRUCTION | COMPOSITE DEPRECIATION RATE |
| GENERATION | | | | | | | | |
| Hydraulic | $ 5,105 | $ 1,495 | $ 69 | 1.5% | $ 5,083 | $ 1,422 | $ 35 | 1.4% |
| Thermal | 369 | 181 | 37 | 3.3 | 375 | 184 | 13 | 2.8 |
| | 5,474 | 1,676 | 106 | | 5,458 | 1,606 | 48 | |
| DISTRIBUTION | 3,142 | 1,003 | 77 | 2.5 | 3,004 | 936 | 82 | 2.6 |
| TRANSMISSION LINES | 2,709 | 1,154 | 27 | 2.1 | 2,704 | 1,104 | 26 | 2.1 |
| SUBSTATIONS | 1,862 | 914 | 49 | 3.1 | 1,834 | 864 | 53 | 3.2 |
| OTHER | | | | | | | | |
| Land and buildings | 431 | 116 | 11 | 2.6 | 416 | 99 | 5 | 2.6 |
| Equipment | 563 | 315 | 24 | 7.8 | 497 | 300 | 38 | 7.2 |
| Service vehicles | 114 | 67 | – | 8.2 | 109 | 63 | – | 7.6 |
| Sundry | 28 | 11 | – | 3.3 | 28 | 10 | – | 3.3 |
| | 1,136 | 509 | 35 | | 1,050 | 472 | 43 | |
| TOTAL | $ 14,323 | $ 5,256 | $ 294 | | $ 14,050 | $ 4,982 | $ 252 | |

## NOTE 8: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance and Corporate Relations for the Province) for the redemption of long-term debt. Sinking fund income is recorded as a reduction of finance charges.

The sinking fund balances at the balance sheet date include the following investments:

| (IN MILLIONS) | 2001 | | 2000 | |
|---|---|---|---|---|
| | CARRYING VALUE | WEIGHTED AVERAGE EFFECTIVE RATE[1] | CARRYING VALUE | WEIGHTED AVERAGE EFFECTIVE RATE[1] |
| Money market unitized funds[2] | $ 354 | 5.0% | $ 234 | 5.6% |
| Province of B.C. and B.C. Crown Corporation bonds | 512 | 5.7 | 501 | 6.2 |
| Federal and other provincial government securities | 282 | 5.6 | 282 | 6.4 |
| | $ 1,148 | | $ 1,017 | |

[1]Rate calculated on market yield to maturity.

[2]Investments held in money market unitized funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.

Fair value information for sinking funds is presented in Note 11.

## NOTE 9: DEFERRED DEBT COSTS

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| Unrealized foreign exchange losses | $ 517 | $ 353 |
| Discount and issue costs | 116 | 147 |
| | $ 633 | $ 500 |

## NOTE 10: LONG-TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds, notes and debentures, substantially all of which have annual sinking fund requirements (see Notes 8 and 13), and revolving borrowings obtained under an agreement with the Province. BC Hydro's debt is either held or guaranteed by the Province.

Under the Hydro and Power Authority Act, BC Hydro is subject to a borrowing limit of $8,800 million after deduction of sinking funds. As at March 31, 2001, BC Hydro's total debt under the borrowing limit totaled $6,900 million (2000 – $7,010 million).

During fiscal 2001, BC Hydro issued bonds and debentures totaling $450 million (2000 – $514 million) with a weighted average effective interest rate of 6.5 per cent (2000 – 5.8 per cent) and a weighted average term to maturity of 19.7 years (2000 – 8.9 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity.

| (IN MILLIONS) | 2001 | | | | 2000 | |
|---|---|---|---|---|---|---|
| | CANADIAN | FOREIGN | TOTAL | WEIGHTED AVERAGE INTEREST RATE[1] | TOTAL | WEIGHTED AVERAGE INTEREST RATE[1] |
| Maturing in fiscal: | | | | | | |
| 2001 | $ – | $ – | $ – | – % | $ 184 | 8.7% |
| 2002 | 404 | – | 404 | 9.3 | 404 | 9.3 |
| 2003 | – | 441 | 441 | 7.0 | 407 | 7.1 |
| 2004 | 300 | – | 300 | 8.0 | 591 | 7.0 |
| 2005 | 388 | 126 | 514 | 9.0 | 529 | 9.0 |
| 2006 | 238 | 245 | 483 | 6.5 | – | |
| Total | | | | | | |
| (1 – 5 years) | 1,330 | 812 | 2,142 | 7.9 | 2,115 | 8.1 |
| 6 – 10 years | 1,091 | 836 | 1,927 | 7.4 | 2,025 | 7.1 |
| 11 – 15 years | 500 | 710 | 1,210 | 6.6 | 913 | 8.4 |
| 16 – 20 years | 600 | – | 600 | 10.7 | – | |
| 21 – 25 years | 696 | 789 | 1485 | 8.0 | 1,296 | 10.1 |
| 26 – 30 years | – | – | – | – | 727 | 6.6 |
| Over 30 years | 200 | 473 | 673 | 7.1 | 436 | 7.4 |
| Bonds, notes and debentures | 4,417 | 3,620 | 8,037 | 7.8 | 7,512 | 8.1 |
| Revolving borrowings | – | 11 | 11 | 5.0 | 515 | 5.2 |
| | $ 4,417 | $ 3,631 | 8,048 | | 8,027 | |
| Less: | | | | | | |
| Current portion | | | 415 | | 699 | |
| Long-term debt | | | $ 7,633 | | $ 7,328 | |

[1] The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and notes and the current interest rate in effect at March 31 for floating-rate bonds and notes, all before considering the effect of derivative financial instruments used to manage interest rate risk.

Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred from contracts entered into by the Province on BC Hydro's behalf. BC Hydro has not experienced any losses due to the indemnity.

The following interest rate contracts were in place at March 31, 2001 and 2000, with a carrying value of nil at both dates. Average variable rates are based on the effective rates at the balance sheet date and vary over time.

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| **RECEIVE FIXED, PAY FLOATING RATE SWAPS** | | |
| Notional amount[1] | $ 915 | $ 891 |
| Weighted average receive rate | 5.95% | 5.96% |
| Weighted average pay rate | 5.06% | 5.12% |
| Remaining terms | 1 year | 2 years |
| **RECEIVE FLOATING, PAY FIXED RATE SWAPS** | | |
| Notional amount[1] | $ 331 | $ 590 |
| Weighted average receive rate | 6.51% | 5.13% |
| Weighted average pay rate | 6.28% | 6.75% |
| Remaining terms | 4 years | 3 years |
| **RECEIVE FLOATING, PAY FIXED ZERO COUPON SWAP** | | |
| Notional amount[1] | $ Nil | $ 436[2] |
| Receive rate | N/A | 7.25% |
| Pay rate | N/A | 6.49% |
| Remaining term | N/A | 36 years |

[1] "Notional amount" for a derivative instrument is defined as the contractual amount on which payments are calculated.

[2] Swap receive and pay amounts are settled on a net basis in 2007 and thereafter every five years until 2032, the year of final settlement. Interest will compound on the receive amount at six month LIBOR and on the pay amount at 6.49 per cent. The swap was unwound in the fiscal year.

The following foreign currency contracts with a net carrying value of $19 million (2000 – $21 million) were in place at March 31, 2001 and 2000. Such contracts are used to hedge foreign dollar principal and interest payments.

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| **CROSS CURRENCY SWAPS[1]** | | |
| BC Hydro receives foreign currency: | | |
| United States dollar – notional amount[2] | US $195 | US $267 |
| United States dollar – weighted average exchange rate | 1.39 | 1.39 |
| Remaining term | 5 years | 5 years |
| Japanese yen – notional amount[2] | ¥ 10,000 | ¥ 10,000 |
| Japanese yen – weighted average exchange rate | 0.0135 | 0.0135 |
| Remaining term | 3 years | 4 years |

[1] Under these arrangements, BC Hydro receives or pays currency in exchange for Canadian currency.

[2] "Notional amount" for a derivative instrument is defined as the contractual amount on which payments are calculated.

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

| (IN MILLIONS) | 2001 | | | | | | 2000 |
|---|---|---|---|---|---|---|---|
| | IN CURRENCY UNITS | AT THE CLOSING EXCHANGE RATES AT THE BALANCE SHEET DATE | FOREIGN CURRENCY CONTRACTS | SINKING FUNDS | NET PRINCIPAL OUTSTANDING BEFORE HEDGING | NET PRINCIPAL OUTSTANDING AFTER HEDGING | NET PRINCIPAL OUTSTANDING AFTER HEDGING |
| Canadian | $ 4,417 | $ 4,417 | $ – | $ (451) | $ 3,966 | $ 4,287 | $ 4,556 |
| US | $ 2,222 | 3,505 | (28) | (688) | 2,789 | 2,594 | 2,433 |
| Yen | ¥ 10,000 | 126 | 9 | (9) | 126 | – | – |
| Long-term debt | | $ 8,048 | $ (19) | $ (1,148) | $ 6,881 | $ 6,881 | $ 6,989 |

### FOREIGN DEBT MANAGEMENT

As at March 31, 2001, BC Hydro hedged US dollar debt, including sinking funds and cross currency swaps totaling US $581 million with a Canadian dollar equivalent of $888 million (2000 – US $619 million with a Canadian dollar equivalent of $883 million). This results in a net foreign currency exposure of US $1,641 million (2000 – US $1,670 million) with a Canadian dollar equivalent of $2,589 million (2000 – $2,428 million).

### REVOLVING BORROWINGS

The authorized borrowing limit under the borrowing agreement is $2.0 billion, with interest charged based on prevailing money market rates. Revolving borrowings outstanding at March 31, 2001 have a weighted average remaining term to maturity of 85 days (2000 – 67 days).

### REDEEMABLE BY THE BOND HOLDER

Certain debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance and Corporate Relations for the Province contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. At March 31, 2001 this debt totaled $242 million (2000 – $283 million), net of related sinking funds, with maturity dates ranging from fiscal 2005 to fiscal 2010 (2000 – fiscal 2001 to fiscal 2010).

### REDEEMABLE BY BC HYDRO

BC Hydro debt of $52 million (2000 – $60 million), net of related sinking funds with a coupon rate of 14.5 per cent (2000 – 14.5 per cent), was called at BC Hydro's option with an effective call date of April 14, 2001.

BC Hydro debt of $102 million (2000 – $106 million), net of related sinking funds with a coupon rate of 13.5 per cent (2000 – 13.5 per cent), is callable at BC Hydro's option on January 15, 2004 (2000 – January 15, 2004).

## NOTE 11: FINANCIAL INSTRUMENTS

### FAIR VALUE

At March 31, 2001 and 2000, BC Hydro's financial instruments included temporary investments, accounts receivable and accrued revenue, sinking funds, accounts payable and accrued liabilities, accrued interest, accrued Payment to the Province, long-term debt, and interest rate and foreign exchange derivative financial instruments. Derivative financial instruments are held with the Province, which enters into such agreements with third parties on BC Hydro's behalf.

The fair value of BC Hydro's financial instruments approximates carrying amounts where applicable, except as shown in the following table:

| (IN MILLIONS) | 2001 | | 2000 | |
|---|---|---|---|---|
| | CARRYING VALUE[1] | FAIR VALUE[2] | CARRYING VALUE[1] | FAIR VALUE[2] |
| Bonds, notes and debentures | $ (8,037) | $ (8,964) | $ (7,512) | $ (8,185) |
| Revolving borrowings[3] | (11) | (11) | (515) | (515) |
| Long-term debt before current portion | $ (8,048) | $ (8,975) | $ (8,027) | $ (8,700) |
| Sinking funds | $ 1,148 | $ 1,170 | $ 1,017 | $ 1,047 |
| Derivative financial instruments | | | | |
| Net foreign currency contracts | $ 19 | $ 47 | $ 21 | $ 39 |
| Interest rate swaps | – | (4) | – | (6) |

[1] Carrying value represents the amount which is recorded in BC Hydro's financial statements. Bracketed amounts represent liabilities.

[2] Market rates and prices used in determining fair value are as of the closing balance sheet date.

[3] Due to the short-term nature of revolving borrowings, fair value approximates carrying value.

### CREDIT RISK MANAGEMENT

BC Hydro is directly exposed to counterparty credit risk as a result of the purchase and sale of electricity and natural gas. BC Hydro's principal markets for power marketing services are power exchanges, power pools, utilities and their affiliates in western United States and western Canada. BC Hydro has concentrations of receivables from these parties throughout these regions. These concentrations of customers may affect BC Hydro's overall credit risk in that certain customers may be similarly affected by changes in economic, regulatory, political and other factors. BC Hydro manages credit risk by authorizing transactions with only credit-worthy counterparties as determined by Board-approved policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis.

The rapid rise of wholesale power prices and in-state supply shortages have caused significant financial hardship for a number of utilities in California. Under California's electricity market restructuring, some utilities were not allowed to pass on the costs of the higher market prices to their customers. As a result, these utilities have accumulated large losses and have defaulted on payments to the California Power Exchange (Cal Px) and the California Independent System Operator (Cal ISO). One major California utility has filed for bankruptcy under a Chapter 11 Reorganization.

At March 31, 2001, the amount owing from Cal Px and Cal ISO was US $289 million (Cdn. $455 million). A portion of this amount was not recognized as revenue due to market uncertainty. BC Hydro has recorded provisions for uncollectible amounts, which in management's best estimate are sufficient to cover any remaining exposure.

Due to the instability in the California market and ongoing regulatory and legal proceedings, management cannot predict the outcome and the amount ultimately collected may differ materially from management's current estimate. As a result of defaults by the California utilities and certain related government action, management has not disclosed the provision amount or range of expected outcomes due to the potentially adverse effect on the collection process.

## NOTE 12: EMPLOYEE BENEFIT PLANS

### EMPLOYEE BENEFITS

BC Hydro provides a defined benefit pension plan to virtually all employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. BC Hydro contributes amounts as prescribed by an independent actuary.

BC Hydro provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees that have at least 10 years of service and qualify to receive pension benefits. BC Hydro also provides post-employment benefits other than pensions including the short-term continuation of health care and life insurance to terminated employees or to survivors on the death of an employee. Post-employment benefits also include the pay out of benefits that vest or accumulate, such as banked vacation.

Information about the defined benefit plans, post-retirement benefits and post-employment benefits other than pensions are as follows:

(a) The net expense for BC Hydro's defined benefit plans is as follows:

| | PENSION BENEFIT PLANS | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| (IN MILLIONS) | **2001** | 2000 | **2001** | 2000 |
| Defined benefit plans | **$ 6** | $ 7 | **$ 20** | $ 4 |

(b) Information about BC Hydro's defined benefit plans as at March 31, in aggregate, is as follows:

| | PENSION BENEFIT PLANS | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| (IN MILLIONS) | **2001** | 2000 | **2001** | 2000 |
| Accrued benefit obligation | **$ 1,775** | $ 1,659 | **$ 128** | $ 115 |
| Fair value of plan assets | **1,986** | 1,891 | **–** | – |
| Funded Status-Plan surplus (deficit) | **$ 211** | $ 232 | **$ (128)** | $ (115) |
| Accrued benefit asset (liability) | **$ 61** | $ 46 | **$ (16)** | $ (1) |

No valuation allowance was required in 2001.

(c) Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

| | PENSION BENEFIT PLANS | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| (IN MILLIONS) | 2001 | 2000 | 2001 | 2000 |
| Accrued benefit obligation | $ 55 | $ 52 | $ 128 | $ 115 |
| Fair value of plan assets | – | – | – | – |
| Funded Status-Plan surplus (deficit) | $ (55) | $ (52) | $ (128) | $ (115) |

(d) The significant assumptions adopted in measuring the company's accrued benefit obligations are as follows:

| | PENSION BENEFIT PLANS | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Discount rate | 7% | 7% | 7% | 7% |
| Expected long-term rate of return on plan assets | 7% | 7% | – | – |
| Rate of compensation increase | PROJECTED INFLATION + 1.5% | PROJECTED INFLATION + 1.5% | – | – |

For measurement purposes, a 6% health care cost trend rate was assumed for 2001.

(e) Other information about BC Hydro's defined benefit plans are as follows:

| | PENSION BENEFIT PLANS | | OTHER BENEFIT PLANS | |
|---|---|---|---|---|
| (IN MILLIONS) | 2001 | 2000 | 2001 | 2000 |
| Employer contributions | $ 20 | $ 18 | $ – | $ – |
| Employees' contributions | $ 9 | $ 9 | $ – | $ – |
| Benefits paid | $ 85 | $ 82 | $ 5 | $ 5 |

No amendments or curtailments occurred in the pension plans during the year.

## NOTE 13: COMMITMENTS AND CONTINGENCIES

### ENERGY PURCHASE COMMITMENTS

BC Hydro has entered into long-term contracts to purchase energy to meet a portion of its expected annual electricity requirements. The minimum obligations to purchase energy under these contracts have a total net present value of approximately $9,195 million of which approximately $1,066 million relates to purchases of natural gas at market prices over 20 years. The remaining commitments are at predetermined prices.

Payments for the next five years are approximately (in millions): 2002 – $1,475; 2003 – $834; 2004 – $791; 2005 – $542; 2006 – $504.

### SINKING FUND COMMITMENTS

Substantially all of BC Hydro's debt issues have annual sinking fund requirements. The annual sinking fund cash requirements for the next five years are (in millions): 2002 – $54; 2003 – $50; 2004 – $46; 2005 – $41; 2006 – $39.

### LEGAL CONTINGENCIES

Due to the size, complexity and nature of BC Hydro's operations, various legal matters are pending. In the opinion of management, these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

## NOTE 14: REVENUES BY GEOGRAPHIC LOCATION

| (IN MILLIONS) | 2001 | 2000 |
|---|---|---|
| British Columbia | $ 2,431 | $ 2,351 |
| Rest of Canada | 173 | 68 |
| United States | 5,285 | 1,061 |
| | $ 7,889 | $ 3,480 |

## NOTE 15: COMPARATIVE INFORMATION

Certain amounts in the 2000 financial statements have been reclassified to conform to the presentation used in 2001.

# FINANCIAL STATISTICS

| FOR THE YEARS ENDED OR AS AT MARCH 31 (MILLIONS OF DOLLARS) | 2001 | 2000[1] | 1999[1] | 1998[1] | 1997[1] |
|---|---|---|---|---|---|
| REVENUES | $ 7,889 | $ 3,480 | $ 3,043 | $ 2,554 | $ 2,426 |
| EXPENSES | | | | | |
| Energy costs | 5,162 | 1,334 | 1,058 | 599 | 508 |
| Operations, maintenance and administration | 755 | 475 | 443 | 411 | 439 |
| Depreciation and amortization | 380 | 375 | 347 | 342 | 327 |
| Taxes | 174 | 172 | 173 | 177 | 169 |
| Finance charges | 559 | 579 | 615 | 585 | 625 |
| | 7,030 | 2,935 | 2,636 | 2,114 | 2,068 |
| Restructuring costs | – | – | – | – | 19 |
| | 7,030 | 2,935 | 2,636 | 2,114 | 2,087 |
| INCOME BEFORE CUSTOMER PROFIT SHARING, EMPLOYEE TRANSITION OPTION COSTS AND RATE STABILIZATION ACCOUNT TRANSFERS | 859 | 545 | 407 | 440 | 339 |
| Customer profit sharing | 310 | – | – | 32 | – |
| Employee transition option costs | – | – | 12 | – | – |
| Rate Stabilization Account transfers | 103 | 129 | – | – | – |
| NET INCOME | $ 446 | $ 416 | $ 395 | $ 408 | $ 339 |
| CAPITAL ASSETS | | | | | |
| At cost | $ 14,617 | $ 14,302 | $ 13,925 | $ 13,592 | $ 13,370 |
| Less: Accumulated depreciation | 5,256 | 4,982 | 4,689 | 4,424 | 4,183 |
| NET BOOK VALUE | $ 9,361 | $ 9,320 | $ 9,236 | $ 9,168 | $ 9,187 |
| Capital asset expenditures | $ 412 | $ 403 | $ 387 | $ 319 | $ 328 |
| Less: Contributions in aid of construction | 44 | 41 | 39 | 47 | 48 |
| NET CAPITAL ASSET EXPENDITURES | $ 368 | $ 362 | $ 348 | $ 272 | $ 280 |
| NET LONG-TERM DEBT[2] | $ 6,214 | $ 7,005 | $ 7,491 | $ 7,191 | $ 7,392 |

[1]Certain amounts have been restated to conform to the presentation used in 2001.

[2]Consists of long-term debt net of sinking funds including current portion less temporary investments.

# OPERATING STATISTICS

| FOR THE YEARS ENDED OR AS AT MARCH 31 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| **GENERATING CAPACITY (MEGAWATTS)** | | | | | |
| Hydroelectric[1] | 10 009 | 10 000 | 9 960 | 9 921 | 9 746 |
| Thermal | 1 124 | 1 123 | 1 085 | 1 078 | 1 083 |
| Total | 11 133 | 11 123 | 11 045 | 10 999 | 10 829 |
| **PEAK ONE-HOUR DEMAND INTEGRATED SYSTEM (MEGAWATTS)** | 8 995 | 8 423 | 8 777 | 8 243 | 8 267 |
| **CUSTOMERS** | | | | | |
| Residential | 1 411 333 | 1 397 926 | 1 379 310 | 1 359 359 | 1 331 094 |
| Light industrial and commercial | 180 607 | 178 454 | 175 772 | 172 079 | 168 457 |
| Large industrial | 131 | 126 | 97 | 91 | 87 |
| Other | 3 042 | 3 032 | 3 011 | 2 977 | 2 960 |
| Electricity trade | 174 | 120 | 104 | 95 | 42 |
| Total | 1 595 287 | 1 579 658 | 1 558 294 | 1 534 601 | 1 502 640 |
| **ELECTRICITY SOLD (GIGAWATT-HOURS)** | | | | | |
| Residential | 14 537 | 14 599 | 13 987 | 13 701 | 14 167 |
| Light industrial and commercial | 16 292 | 15 960 | 15 776 | 15 511 | 15 201 |
| Large industrial | 15 573 | 14 644 | 14 705 | 13 042 | 14 175 |
| Other | 1 729 | 1 239 | 1 323 | 1 038 | 1 115 |
| Domestic | 48 131 | 46 442 | 45 791 | 43 292 | 44 658 |
| Electricity trade | 23 900 | 23 410 | 18 715 | 13 168 | 9 826 |
| Total | 72 031 | 69 852 | 64 506 | 56 460 | 54 484 |
| **DOMESTIC CHANGE OVER PREVIOUS YEAR (%)** | 3.6 | 1.4 | 5.8 | (3.1) | 0.6 |
| **REVENUES (MILLIONS)** | | | | | |
| Residential | $ 892 | $ 894 | $ 855 | $ 839 | $ 866 |
| Light industrial and commercial | 866 | 849 | 838 | 828 | 809 |
| Large industrial | 524 | 482 | 488 | 424 | 471 |
| Other energy sales | 90 | 73 | 77 | 65 | 67 |
| Domestic electric | 2,372 | 2,298 | 2,258 | 2,156 | 2,213 |
| Miscellaneous | 59 | 53 | 46 | 57 | 49 |
| Domestic | 2,431 | 2,351 | 2,304 | 2,213 | 2,262 |
| Electricity trade | 5,458 | 1,129 | 739 | 341 | 164 |
| Total | $ 7,889 | $ 3,480 | $ 3,043 | $ 2,554 | $ 2,426 |
| **AVERAGE REVENUE (PER KILOWATT-HOUR)** | | | | | |
| Residential | 6.1 ¢ | 6.1 ¢ | 6.1 ¢ | 6.1 ¢ | 6.1 ¢ |
| Light industrial and commercial | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |
| Large industrial | 3.4 | 3.3 | 3.3 | 3.3 | 3.3 |
| Other | 5.2 | 5.9 | 5.8 | 6.3 | 6.0 |
| Electricity trade | 22.8 | 4.8 | 3.9 | 2.6 | 1.7 |
| **AVERAGE ANNUAL KILOWATT-HOUR USE PER RESIDENTIAL CUSTOMER** | 10 344 | 10 507 | 10 201 | 10 171 | 10 735 |
| **LINES IN SERVICE** | | | | | |
| Distribution (KILOMETRES) | 57 238 | 56 828 | 56 397 | 55 746 | 54 993 |
| Transmission (CIRCUIT KILOMETRES) | 18 025 | 17 822 | 17 815 | 17 811 | 17 800 |
| **NUMBER OF EMPLOYEES[2]** | 5 952 | 5 587 | 5 476 | 5 379 | 5 819 |

[1] Maximum sustained generating capacity.

[2] Includes full-time and part-time employees.

# TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

| FOR THE YEARS ENDED MARCH 31 | | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|---|
| | GENERATING CAPACITY (MEGAWATTS) | GIGAWATT-HOURS | % | GIGAWATT-HOURS | % | GIGAWATT-HOURS | % |
| REQUIREMENTS | | | | | | | |
| Domestic | 11 133 | 48 131 | 62.3 | 46 442 | 62.0 | 45 791 | 65.6 |
| Electricity trade | | 23 900 | 31.0 | 23 410 | 31.2 | 18 715 | 26.8 |
| | | 72 031 | 93.3 | 69 852 | 93.2 | 64 506 | 92.4 |
| Line loss and system use | | 5 200 | 6.7 | 5 093 | 6.8 | 5 271 | 7.6 |
| | | 77 231 | 100.0 | 74 945 | 100.0 | 69 777 | 100.0 |
| SOURCES OF SUPPLY | | | | | | | |
| Hydroelectric generation | | | | | | | |
| Gordon M. Shrum | 2 730 | 14 176 | 13.1 | 13 636 | 18.2 | 14 000 | 20.1 |
| Revelstoke | 1 980 | 8 612 | 8.9 | 9 331 | 12.4 | 8 152 | 11.7 |
| Mica | 1 805 | 7 657 | 7.5 | 7 992 | 10.6 | 7 597 | 10.9 |
| Kootenay Canal | 580 | 2 753 | 3.2 | 4 034 | 5.4 | 3 501 | 5.0 |
| Peace Canyon | 694 | 3 525 | 3.3 | 3 414 | 4.6 | 3 478 | 5.0 |
| Seven Mile | 594 | 2 627 | 2.9 | 3 286 | 4.4 | 3 152 | 4.5 |
| Bridge River | 466 | 2 203 | 2.3 | 3 065 | 4.1 | 2 923 | 4.2 |
| Other | 1 160 | 3 894 | 17.6 | 5 169 | 6.9 | 4 596 | 6.6 |
| | 10 009 | 45 447 | 58.8 | 49 927 | 66.6 | 47 399 | 68.0 |
| Thermal generation | | | | | | | |
| Burrard | 912 | 3 975 | 5.2 | 1 312 | 1.8 | 3 177 | 4.5 |
| Other | 212 | 518 | 0.7 | 407 | 0.5 | 101 | 0.1 |
| Purchases | | 27 904 | 36.1 | 23 241 | 31.0 | 19 182 | 27.5 |
| Exchange net | | (613) | (0.8) | 58 | 0.1 | (82) | (0.1) |
| | 11 133 | 77 231 | 100.0 | 74 945 | 100.0 | 69 777 | 100.0 |

# 2001 BC HYDRO PERFORMANCE REPORT

Performance measurement is an integral part of BC Hydro's Strategic Management Process. The tool that BC Hydro uses to assess performance is the Balanced Scorecard. The Scorecard is used to translate BC Hydro's mission and strategy into tangible measures and targets that drive action. The balanced part of the Scorecard means it contains a combination of both financial and non-financial indicators as well as measures of past performance (lag indicators), and measures of the drivers of future performance (lead indicators).

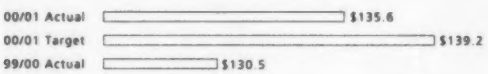
The development of performance measures is an evolving process. As business needs change, so also must the related measures change. Performance measures have been identified for the majority of BC Hydro's strategic objectives, and others are in the process of being assessed and implemented. The following report provides the results for selected performance measures.

## SHAREHOLDER VALUE-ADDED (SVA) MILLIONS OF DOLLARS

SVA is a measure of how well BC Hydro performed beyond the return expected for a company with a similar level of risk. It is calculated as: Net Operating Profit less Capital Charge. Net operating profit is net income before finance charges and the transfer to the Rate Stabilization Account. Capital Charge is Invested Capital x Cost of Capital. SVA before the Customer Profit Sharing was $412 million, $467 million higher than target and $283 million higher than the prior year. The substantial increase in SVA from Target and Prior Year is primarily attributed to the increase in electricity trade margins.

Optimizing the use of its storage and generation facilities to maximize profitable import and export of energy allowed BC Hydro to take advantage of the significant opportunities created by a strong electricity trade market and high electricity trade sales prices. The high prices were mainly due to several factors relating to the California market and its restructuring problems including: an increase in demand as a result of an unusually warm summer followed by an unusually cold fall and winter, a lack of new generating capacity, higher gas prices, a strong state economy that greatly increased its demand for energy, reduced water inflows in the Pacific Northwest and scattered unit outages.

## COMA PER CUSTOMER (CAPITAL, OPERATIONS, MAINTENANCE AND ADMINISTRATION EXPENSES PER CUSTOMER)




COMA per Customer measures the efficiency of capital and OMA expenditures in serving customers. It is calculated as: [Recurring capital expenditures + OMA] / Number of retail customers weighted by average revenues. OMA excludes approved one-time ex-plan spending, expenditures to support the growth of electricity trade activities and the provision to cover the exposure to uncollectible accounts receivable from California.

COMA/Customer was lower than Target primarily due to lower distribution capital spending resulting from lower than anticipated customer growth. The increase in COMA/Customer from the Prior Year reflects the increase in costs required to maintain the company's aging portfolio of assets. An increase in pension costs and an increase in the cost of doing business due to environmental, social and safety issues also contributed to the COMA/Customer increase from Prior Year. The increase in pension costs is the result of a mandatory change in the accounting for employee post-retirement benefits. This change in accounting standards applies to every company that has post-retirement benefit plans and requires the cost of these benefits be accounted for on an accrual instead of a cash basis for years after 2000.

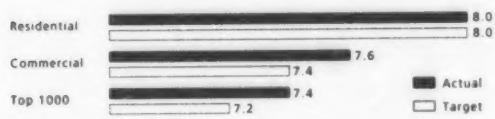
## PUBLIC OPINION

The Public Opinion survey measures public perception of BC Hydro's policies and practices in areas including environmental and social responsibility, operations, performance, and public and employee health and safety. The figure represents the percentage of B.C. residents who held favourable overall impressions of BC Hydro.

Actual results were slightly lower than target and previous year largely due to this year's increase in the natural gas rates and the misperception of BC Hydro's role and relationship to BC Gas.

The year-end results were significantly up from the mid-year results, a time when respondents were pointing to "increasing rates" as their top issue of concern with BC Hydro. These misperceptions have eased slightly over the past few months. Relatively fewer people are now confusing BC Hydro with BC Gas and many have heard about the price problems in California and now view their electricity costs as relatively inexpensive.

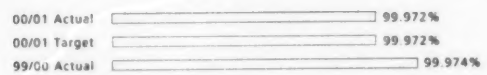
## CUSTOMER SATISFACTION




The Customer Satisfaction measure is based on the customer's response to the survey question "How satisfied are you with BC Hydro." This question is based on the customer's overall perception and the results represent a score out of 10.

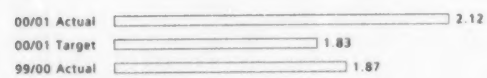
We achieved our customer satisfaction targets for all three customer segments.

## AVERAGE SYSTEM AVAILABILITY INDEX (ASAI)




ASAI is the percentage of total time that power was available to customers calculated on a rolling twelve-month-average basis. This measure is a standard indicator of reliability of service for the electrical utility industry. ASAI actual result came in exactly on target.

## CUSTOMER AVERAGE INTERRUPTION DURATION INDEX (CAIDI)




Whereas ASAI measures system availability, CAIDI measures the average number of hours per interruption. It is also calculated on a rolling twelve-month-average basis and is an industry standard.

The CAIDI result was heavily impacted by the December wind/snow storm that hit the Lower Mainland and Vancouver Island, and the unusual equipment failure in January that affected downtown Vancouver.

# STATEMENT OF CORPORATE GOVERNANCE PRACTICES

For a Corporation as diverse and complex as BC Hydro, the Board of Directors is mindful of the need for strong and effective leadership.

BC Hydro has been guided by a corporate governance framework that has been in place since 1997. The framework defines the roles and responsibilities of the Board of Directors and Management, and establishes accountability processes for BC Hydro and its Subsidiaries. This framework also includes a *Director and Employee Code of Conduct* that reinforces BC Hydro's corporate values and conduct expectations.

The Board of Directors is committed to ensuring that the Corporation has the right level of governance at all times and to this end, Directors subscribe to a principle of continuous improvement.

This last year, the Board was able to take stock of its accomplishments since it established the current corporate governance framework in 1997. The Board conducted an evaluation, as well as an assessment of the structures and processes for governance at BC Hydro. The outcome of this review reinforced the Board's view that its composition, policies and processes provide the right level of corporate governance to enable the Corporation to respond to business challenges in a planned and responsible manner.

While an effective corporate governance framework is necessary for any corporation, the framework is only as effective as the people who are charged with the responsibility for providing leadership. The success of BC Hydro is, and always will be, based on the people of the organization and the contribution that each is able to make to its future.

BC Hydro's governance framework provides a solid foundation and ensures that the Board of Directors and Management will continue to provide an appropriate level of governance while contributing to the future success of the Corporation.

To view the *Director and Employee Code of Conduct* visit BC Hydro's Web site at www.bchydro.com.

# DIRECTORS, OFFICERS AND SENIOR MANAGEMENT OF BC HYDRO

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Jack Gerow
Gordon Green
Maureen Headley
Gwen Johansson
David Lane
Anne Martin
Sophie Pierre
Jim Sinclair
John Stubbs
Erda Walsh

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Vice-President, Human Resources

**Sandy Gillies**
Senior Vice-President, Power Supply

**David Harrison**
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**Yakout Mansour**
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**Gary Rodford**
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Senior Vice-President, Strategic Planning and Sustainability

**Gary Sherlock**
Vice-President, Business Development and Controller

**Gayle Stewart**
Vice-President, Customer Services

**Shawn Thomas**
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**Ron Threlkeld**
Senior Vice-President, Transmission and Distribution

**Bev Van Ruyven**
Vice-President, Marketing and Sales

**Valerie Lambert**
Treasurer

**Debbie Lamming**
Assistant Corporate Secretary

**Bob Steele**
Chief Information Officer

**Myra Watson**
Corporate Secretary

* UNTIL JUNE 5, 2001

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Gordon Green
John Stubbs

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Brent Rogers (Fort St. John)
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* UNTIL JUNE 5, 2001

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Gary Rodford
Brian R.D. Smith*
John Stubbs

**OFFICERS**

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Sandy Gillies
President

Jim Gemmill
VP, Operations and Consulting Services

Myra Watson
Secretary

Debbie Lamming
Assistant Secretary

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Executive VP, Sales & Marketing

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Teresa Conway
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Doug Little
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Debbie Lamming
Assistant Secretary

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Gary Rodford
Ron Threlkeld
Erda Walsh

**OFFICERS**

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Chair

Prabha Kundur
President

Nigel Austin
VP, Finance & Business Support

Myra Watson
Secretary

Debbie Lamming
Assistant Secretary

* UNTIL JUNE 5, 2001

## SUBSIDIARIES

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David Harrison
Gary Rodford
Bob Steele

**OFFICERS**

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Chair

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Dan Bowditch
VP, GIS Systems

John Lam
VP, Energy Systems

Art Kuiper
VP, Customer & Corporate Systems

John McArthur
Managing Director, E-Business Solutions & Public Sector

Myra Watson
Secretary

Debbie Lamming
Assistant Secretary

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Garry Corbett
Sandy Gillies

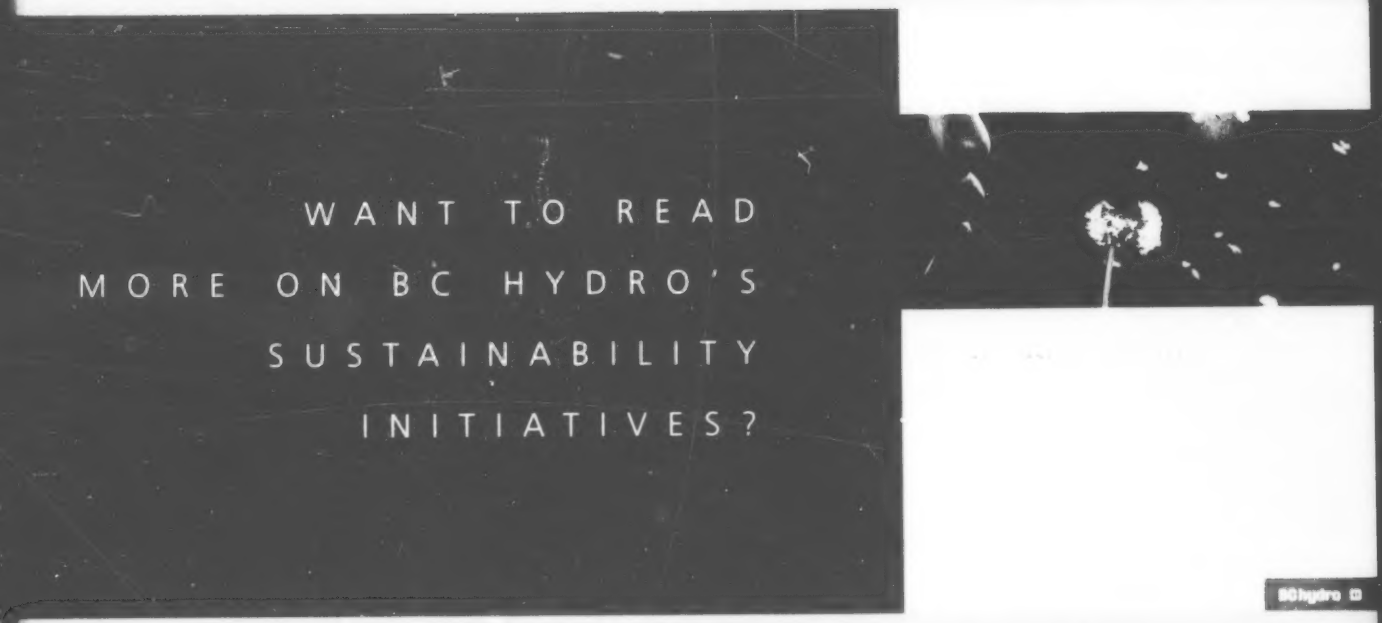
**OFFICERS**

Sandy Gillies
President and Treasurer

Noel Chalmers
Assistant Treasurer

Myra Watson
Secretary

Debbie Lamming
Assistant Secretary




This annual report is primarily to inform stakeholders of BC Hydro's financial progress and to provide a summary of our company's achievements.

We are also committed to reporting our performance from a triple bottom line perspective. We know that integrating social, environmental and economic bottom lines is fundamental to making sound, sustainable business decisions.

BC Hydro's 2001 Triple Bottom Line Report shares our approach to becoming a sustainable energy company. It provides a comprehensive overview of our performance results across the three bottom lines, and takes a look at what's ahead as we continue our journey to sustainability.

If you would like to receive a copy of the report, please send an e-mail to sustainability@bchydro.com, call us at 1-877-431-9463, or visit www.bchydro.com.

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